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A Time to Act

*A Report of the USDA National
Commission on Small Farms*

January 1998



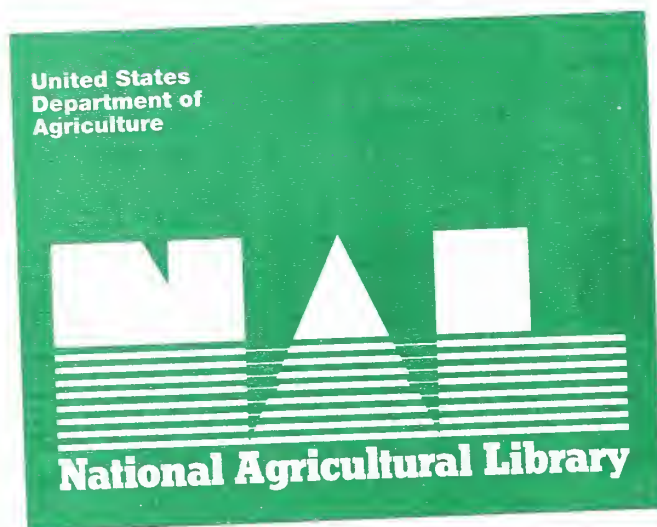
National Commission on Small Farms



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*This report is dedicated to the memory, life and work of
Dr. Martin Luther King, Jr., who gave his life for expanding
opportunities for all Americans; and to Thomas Jefferson,
who envisioned the “yeoman” farmer as the bedrock of
American democracy.*





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January 1998

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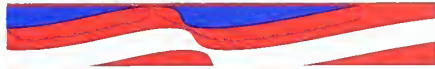
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A Time to Act

A Report of the USDA National Commission on Small Farms

Contents

I.	Letter of Transmittal	6
II.	Executive Summary	8
III.	Introduction	14
IV.	The USDA National Commission on Small Farms	24
V.	A Vision for Small Farms in the 21st Century	26
VI.	Guiding Principles for Federal Farm Policy	27
VII.	Description of a Small Farm	28
VIII.	Policy Goals and Recommendations	30
	1. Recognize the Importance and Cultivate the Strengths of Small Farms	30
	2. Create a Framework of Support and Responsibility for Small Farms	50
	3. Promote, Develop and Enforce Fair, Competitive and Open Markets for Small Farms	55
	4. Conduct Appropriate Outreach Through Partnerships to Serve Small Farm and Ranch Operators	80
	5. Establish Future Generations of Farmers	89
	6. Emphasize Sustainable Agriculture as a Profitable, Ecological and Socially Sound Strategy for Small Farms	98
	7. Dedicate Budget Resources To Strengthen the Competitive Position of Small Farms in American Agriculture	105
	8. Provide Just and Humane Working Conditions for All People Engaged in Production Agriculture	109
IX.	Appendixes	
	1. Commission Charter	114
	2. Acronyms /Abbreviations	118
	3. Index	119
	Acknowledgements	123

Letter of Transmittal

January 1998

Secretary Glickman,

The National Commission on Small Farms is pleased to submit to you our report – *A Time to Act*. It is the product of considerable discussion and deliberation based on extensive oral and written testimonies and suggestions gleaned from the Commission's many regional hearings, as well as from written materials submitted to the Commission.

USDA's administrators and staff made themselves accessible to the Commission and provided much useful information about the Department's many and varied agencies, programs, and policies. And USDA staff who worked with the Commission were indispensable in facilitating the Commission's work.

Having gone through the process of developing this report, we are now even more convinced of the necessity to recognize the small farm as the cornerstone of our agricultural and rural economy. We feel that a sustainable rural renaissance can be anchored in a vibrant, dynamic, small farm sector and we believe that the Commission's recommendations, if implemented, will contribute to this renaissance.

We wish to acknowledge and applaud your decisive action in appointing this Commission and in responding to concerns and recommendations made in the Civil Rights Action Team Report.

We look forward to joining with you and others in helping to fashion policies, programs, and partnerships that will bring economic vibrancy to rural communities, wholesome and nutritious food for consumers, stability to our small farm enterprises, and an improved quality of life to our small farmers and our farmworkers.

Respectfully signed and submitted by:



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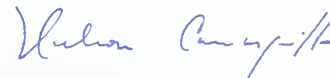
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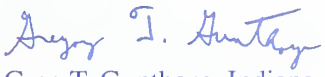
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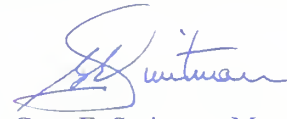
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II. Executive Summary

Not since Secretary of Agriculture Bob Bergland initiated a study of the structure of agriculture in 1979 has USDA made the effort to examine the condition of farming and its place in our food system. The USDA Civil Rights Action Team that recommended formation of a commission recognized that, in addition to racial discrimination, government policies and practices have discriminated against small farm operators. In July of 1997, nearly 20 years later, Secretary of Agriculture Dan Glickman appointed a 30-member National Commission on Small Farms to examine the status of small farms in the United States and to determine a course of action for USDA to recognize, respect, and respond to their needs.

The Commission began its work in Memphis, Tennessee, on July 28. Subsequent public hearings and meetings were held in Sioux Falls, South Dakota, on August 21 and 22; Washington, DC, on September 10 and 11; and Sacramento, California, on September 15 and 16. Three smaller meetings were held in Albany, New York; Albuquerque, New Mexico; and Portland, Oregon. The results of the Commission's work are embodied in the 146 recommendations in this report, *A Time to Act*.

When Secretary Bergland's report, *A Time to Choose*, was published, it warned that "...unless present policies and programs are changed so that they counter, instead of reinforce or accelerate the trends towards ever-larger farming operations, the result will be a few large farms controlling food production in only a few years."¹

Looking back now nearly 2 decades later, it is evident that this warning was not heeded, but instead, policy choices made since then perpetuated the structural bias toward greater concentration of assets and wealth in fewer and larger farms and fewer and larger agribusiness firms. Federal farm programs have historically benefited large farms the most. Tax policies give large farmers greater incentives for capital purchases to expand their operations. Large farms that depend on hired farmworkers receive exemptions from Federal labor laws allowing them the advantage of low-wage labor costs.

Today, we have 300,000 fewer farmers than in 1979, and farmers are receiving 13 percent less for every consumer dollar. Four firms now control over 80 percent of the beef market. About 94 percent of the Nation's farms are small farms, but they receive only 41 percent of all farm receipts.

Like most major industries, the ownership and control over agricultural assets is increasingly concentrated in fewer and fewer hands. Farmers have little to no control over setting the price for their products. The basic tenets of a "competitive" market are less and less evident in crop and livestock markets today.

The recent passage of the 1996 Federal Agricultural Improvement and Reform Act was a watershed event in the history of Federal farm policy. It signals the reduction and eventual elimination of government intervention in commodity markets as a means to provide income and price stability for the farming sector.

¹ *A Time to Choose: Summary Report on the Structure of Agriculture*. USDA. Washington, DC. January 1981. p. 142.



Agricultural technologies have emerged that use ever greater levels of capital to enable fewer people to produce the Nation's food. As a result, income and opportunities have shifted from farms to the companies that produce and sell inputs to farmers. As farmers focused on producing undifferentiated raw commodities, food system profit and opportunities were shifted to the companies that process, package, and market food. Consequently, from 1910 to 1990 the share of the agricultural economy received by farmers dropped from 21 to 5 percent.²

The pace of industrialization of agriculture has quickened. The dominant trend is a few, large, vertically integrated firms controlling the majority of food and fiber products in an increasingly global processing and distribution system. If we do not act now, we will no longer have a choice about the kind of agriculture we desire as a Nation.

A Vision for Small Farms in the 21st Century

The National Commission on Small Farms is certain about its choice for the future of American agriculture:

Small farms have been the foundation of our Nation, rooted in the ideals of Thomas Jefferson and recognized as such in core agricultural policies. It is with this recognition of our Nation's historical commitment to small farms that we renew our dedication to the prominence of small farms in the renewal of American communities in the 21st century. Black, Hispanic, Native American, Asian, women, and other minorities have contributed immensely to our Nation's food production and their contributions should be recognized and rewarded.

It is our resolve that small farms will be stronger and will thrive, using farming systems that emphasize the management, skill, and ingenuity of the individual farmer. We envision a competitive advantage for small farms realized through a framework of supportive, yet responsible, government and private initiatives, the application of appropriate research and extension, and the

² Smith, Stewart, "Farming: It's Declining in the U.S.," Choices, First Quarter 1992.

stimulation of new marketing opportunities. As small farms and farmworkers succeed in this nurturing environment, not only will they continue their valuable contribution to the Nation's food supply, but they will also fuel local economies and energize rural communities all across America. In the process of flourishing, small farms will contribute to the strengthening of society, providing communities and the Nation with opportunities for self-employment and ownership of land, and providing a cultural and traditional way of life as well as nurturing places to raise families.

We emphasize public policies that recognize the value of small farms and actively encourage their growth and continuation. These policies are essential to the realization of this vision; so too, are policies that recognize and reward the contributions of farmworkers and their families. Toward this end, the Commission has articulated goals and made specific recommendations to guide the decision-making of the Secretary of Agriculture, the Executive Branch and Congress into the next century.

This vision is focused on those farms with less than \$250,000 gross receipts annually, on which day-to-day labor and management are provided by the farmer and/or the farm family that owns the production or owns, or leases, the productive assets.

Policy Goals for Our Nation's Small Farms

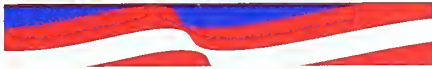
The Commission outlined 8 policy goals for a national strategy for small farms:

Policy Goal 1: Recognize the importance and cultivate the strengths of small farms

- USDA's Research, Education and Economics Mission Area should design and implement a small farm research initiative dedicated to optimizing the labor and ingenuity of small farm operators and the biological assets of their farms using less capital-intensive investments.
- USDA should re-commit itself as the "lender of last resort" by focusing greater attention to serving the credit needs of small, minority, and beginning farmers; reversing the shift to guaranteed loans; and accelerating action on pending credit regulations.
- Congress should repeal the provisions that prohibit farmers who have previously had "debt forgiveness" from receiving any future USDA loans or credit assistance.
- USDA policies, programs, and regulations should be reviewed to identify program rules and regulations that are either intentionally or unintentionally biased against small farms, including the Environmental Quality Incentives Program, the Business and Industry Loan Program, and Forestry Stewardship Programs.

Policy Goal 2: Create a framework of support and responsibility for small farms

- Establish an Administrator of Small Farm Programs that reports to the Secretary and has Senior Executive Service status.



Executive Summary

- USDA should develop a Department-wide Small Farm and Ranch Policy that encompasses the vision and the guiding principles set forth by the Commission and that must be reflected in the services, programs, and materials delivered by each agency.

Policy Goal 3: Promote, develop, and enforce fair, competitive, and open markets for small farms

- USDA's Rural Business – Cooperative Service should give priority to the development of farmer-owned, value-added cooperatives and farm-based businesses where profits flow to and within the community; where wage-laborers are paid a living wage; where the efforts results in more local and regional competition in the cash market, not less; and where natural resource stewardship is rewarded through the market.
- The Secretary should propose legislation clarifying the authority of the Grain Inspection, Packers and Stockyards Administration (GIPSA) to prohibit discriminatory pricing on the basis of volume.
- The Secretary should consider Federal production contract legislation to address issues such as contract termination, duration, and re-negotiation; prohibition against discriminatory practices; and responsibility for environmental damages.
- The Commission endorses the proposed rule to prohibit packers from procuring cattle for slaughter through the use of a forward contract, and from owning and feeding cattle, with limited exceptions.
- USDA should investigate the processing and retailing segments of the dairy industry to determine if excessive profits are being made at the expense of farmers and consumers.
- USDA should develop an interagency initiative to promote and foster local and regional food systems featuring farmers markets, community gardens, Community Supported Agriculture, and direct marketing to school lunch programs.

Policy Goal 4: Conduct appropriate outreach through partnerships to serve small farm and ranch operators

- Farm Service Agency State Executive Directors, Rural Development State Directors, Natural Resources Conservation Service State Conservationists, and State Cooperative Extension program administrators should support the formation of farmer networks and mentoring programs for small farmers.
- USDA should collaborate with and jointly fund community-based organizations to train people to be farmer advocates.
- Educational efforts by the Risk Management Agency should address sustainable agriculture practices as a means of managing risk on small farms.

Policy Goal 5: Establish future generations of farmers

- USDA should launch an interagency Beginning Farmer Initiative dedicated to researching, developing, and disseminating farm management models that emphasize low-capital investment, optimal use of skilled labor and management potential of beginning farmers, and high-value crop and livestock production and marketing methods.

- The Farm Service Agency should clearly define the eligibility requirements for beginning farmers and recognize the farming experience of persons who were raised on family farms, who worked as hired farm labor, or who received training from apprenticeships.
- Congress should authorize the Farm Service Agency to guarantee tax-exempt First Time Farmer Bonds used to make loans to beginning farmers and ranchers.
- USDA should seek legislative authority to create a Beginning Farmer Matching Grant program for the purpose of supplying equity funds for entry farmers in lieu of loans.

Policy Goal 6: Emphasize sustainable agriculture as a profitable, ecological, and socially sound strategy for small farms

- The USDA Office of Communications should conduct a communications campaign to inform farmers of the new farming strategies emerging from the 10 years of sustainable agriculture research.
- The Secretary of Agriculture should support policies that preserve the grazing and water use rights of the small and traditionally underserved public land permittees.
- USDA's Risk Management Agency should develop an affordable Whole Farm Revenue Insurance pilot project for diversified small farms using sustainable farming practices.
- The Secretary should exercise restraint in approving exceptions to the 1,000 animal units eligibility limit on EQIP funding for livestock manure storage structures.

Policy Goal 7: Dedicate budget resources to strengthen the competitive position of small farms in American agriculture

- Increase appropriations for the Sustainable Agriculture Research and Education program by \$10 million each year over 3 years to reach \$40 million.
- Increase the Outreach and Technical Assistance Program for Socially Disadvantaged and Minority Farmers (Sec. 2501) program to the current authorized level of \$10 million annually.
- Increase funding to the maximum authorized levels of \$85 million for Farm Ownership Direct Loans and \$500 million for Farm Operating Direct Loans.
- Increase Rural Technology and Cooperative Development Center Grant Program funding to \$20 million.
- Ensure GIPSA appropriated funding at \$3 million for reorganization, \$1.65 million for increased staff, and \$750,000 for investigation into unfair market practices in the poultry industry.

Policy Goal 8: Provide just and humane working conditions for all people engaged in production agriculture

- President Clinton should establish an interdepartmental task force led by Secretary Glickman involving the Departments of Education, Labor, Health and Human Services, and Environmental Protection Agency, as well as the Internal Revenue Service and the Immigration and Naturalization Service, to address the laws, regulations, and enforcement affecting farmworkers.



The dominant belief in agriculture is that large farms are more efficient than small farms. However, Professor Willis L. Peterson from the University of Minnesota found that factors other than size influence the unit costs in agriculture. Peterson asserts that “small family and part-time farms are at least as efficient as larger commercial operations. In fact, there is evidence of diseconomies of scale as farm size increases.”³

In addition, our economic accounting systems do not take into account the “hidden” costs of large farms. An agricultural system characterized by a limited number of large-scale farms does not take into account the loss of market competition when production is concentrated in oligopsonistic markets. The environmental consequences of concentrating a large number of animals in limited areas is rarely considered.

Small farms contribute more than farm production to our society. Small farms embody a diversity of ownership, cropping systems, landscapes, biological organization, culture, and traditions. Since the majority of farmland is managed by a large number of small farm operators, the responsible management of soil, water, and wildlife encompassed by these farms produces significant environmental benefits. Decentralized land ownership produces more equitable economic opportunity for people in rural communities, and offers self-employment and business management opportunities. Farms, particularly family farms, can be nurturing places for children to grow up and acquire the values of responsibility and hard work.

In 1980, Secretary Bergland proposed a “Time to Choose” the future direction for our Nation’s agriculture. However, policy choices made since then have diminished the role and relevance of small farms in this country.

On more than one occasion, farmers who spoke at the public meetings referred to the Commission as “our last hope.” It is with conviction and hope that the National Commission on Small Farms is asking the Congress and USDA to *act* on the needs of America’s small farmers.

³ Peterson, Willis L., "Are Large Farms More Efficient?" Staff Paper P97-2. University of Minnesota, Department of Applied Economics, January 1997.



III. Introduction

Not since Secretary of Agriculture Bob Bergland initiated a study of the structure of agriculture in 1979 has USDA made the effort to examine the condition of farming and its place in our food system. In July of 1997, nearly 20 years later, Secretary of Agriculture Dan Glickman appointed a 30-member National Commission on Small Farms to examine the status of small farms in the United States and to determine a course of action for USDA to recognize, respect and respond to their needs through changes in policies, practices, and programmatic approaches.

Early on in the process, members of the National Commission on Small Farms recognized that its focus was not limited to the viability of “small farms,” but rather their efforts were to include an examination of the structure of agriculture and how it affects small farm viability. The focus of the Commission was “How do farms, of modest investments, owned and operated by families who supply the majority of labor, remain profitable in an agricultural structure that is increasingly bi-polar?”

When providing the newly formed National Commission on Small Farms with its assignment to develop a National Strategy for Small Farms, Secretary of Agriculture Dan Glickman outlined the challenges facing small farmers today:

Its no secret out in farm country that things are changing...and fast. Agriculture, like every other major sector of our economy, is concentrating. From defense to retail stores, to health care, to railroads, to farms and ranches — we're seeing fewer and larger operations, mergers and buyouts, larger market shares and fewer people in those markets.

At the time of the first meeting, the Commission recognized that there was seemingly a national consensus that larger farms are more efficient and, therefore, in the national interest. However, members of the Commission believe that the primary values of small farms were to be found in our national heritage and that heritage is important to keep alive for future generations. As eloquently stated during the first hearing: “The greatest thing that agriculture furnished this country is not food or fiber, but a set of children with a work ethic and a good set of values.”⁴

During the several months since the initial public meeting in Memphis, the Commission heard oral testimony from literally hundreds of owners of small farms and people in the agriculture sector. They have read and studied written testimonies and research papers which stack up over a foot thick. The Commission has engaged in freewheeling debate and in-depth discussions among themselves and with experts on numerous issues affecting all aspects of the American agriculture community. Commission members also spent hundreds of workhours with USDA staff studying various programs. Most importantly, the Commission learned.

⁴ Ron Macher, of Clark, Missouri. Editor of Small Farm Today Magazine, testimony at Memphis public meeting, July 28, 1997.



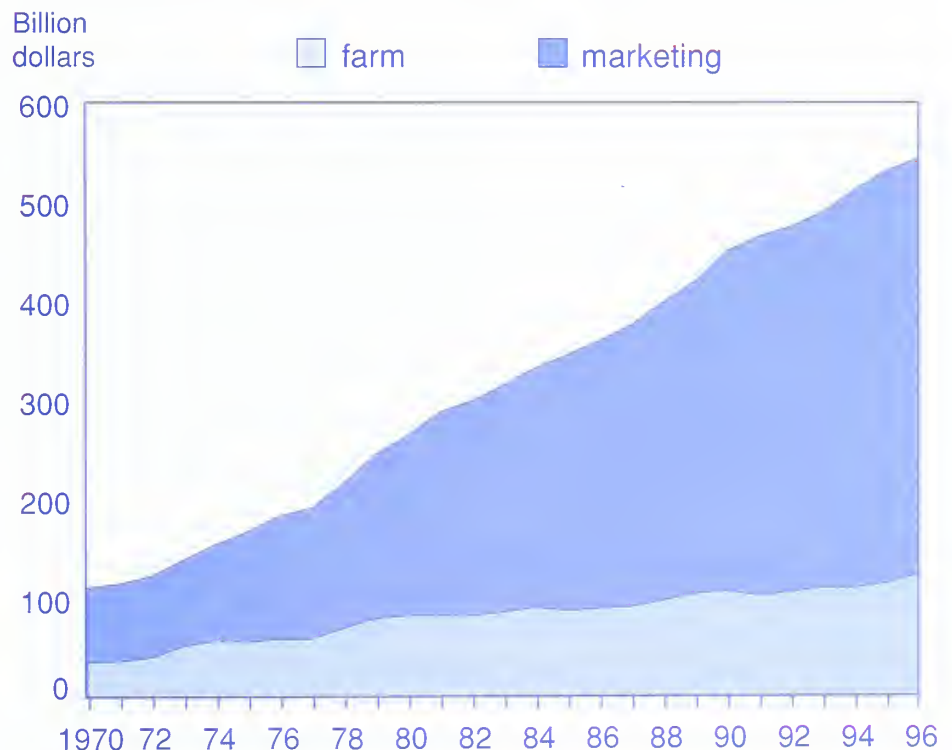
Introduction

The Commission learned that larger farms are not more efficient than small farms at producing crops.⁵ They learned that as small farms are consolidated into larger farms, the economic basis of America's rural communities decline, and rural towns are lost.⁶ Trends have also been revealing. The land base of America is being concentrated into fewer and fewer owners, in large part due to the concentration of agriculture, and that large agricultural processors are actively acquiring highly productive farm land in some regions, like the Central Valley of California. Another trend which was repeated throughout the written and oral testimony is the tendency of the large agricultural integrators to avoid capital investment in the means of production and pass both the risk and costs on to their contract growers or to society at large in the form of water and soil pollution and increased Federal assistance to those rural communities. Finally, and importantly, a trend which appears in all sectors of American agriculture is a widening spread between what farmers received for their production and what consumers pay at the supermarket (See Figure 1). The

Figure 1

Distribution of food expenditures

The marketing bill is 77 percent of 1996 food expenditures

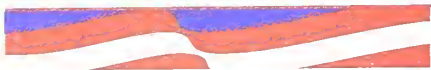


Data for foods of U.S. farm origin purchased by or for consumers for consumption both at home and away from home

Source: Agriculture Fact Book 1997

⁵ Peterson, W.L. 1997. Are Large Farms More Efficient? Staff Paper p97-2. University of Minnesota

⁶ Lobao, Linda M., *Locality and Inequality: Farm and Industry Structure and Socioeconomic Conditions*, State University of New York Press, Albany, 1990, p. 56-57



setting of prices under near monopoly conditions allows the major processors and retailers of agricultural products to capture an increased price spread, bankrupting farmers while providing the financial ability for these agricultural industries to buy their competition, further concentrating markets and eliminating the free market on which our society depends.

The U.S. Department of Agriculture, established by President Lincoln as the “People’s Department,” has numerous agencies and programs whose purposes are to ensure an abundant and safe national food supply. Historically, these programs adopted a mission of assisting American small farmers and provided locally driven Federal support to millions of farm families in rural America. Lending programs were established to provide services as the lender “of last resort” when other credit sources were not available. Extension services assisted farmers and their families with crop selection, food preservation, home economics, and youth development through the 4-H program. Conservation programs focused on assisting individual farmers in improving the long-term productivity and sustainability of their lands. Research focused on improved crop cultivars and on-farm improvements to improve production.

The Result of Choices Made

Secretary Bergland committed a year and a half of public hearings, research, and analysis to the structure and performance of agriculture, culminating in a report entitled *A Time to Choose*, published in January 1981, on the eve of a new Administration. The report described the historical trends and changes in the structure of agriculture over time and warned, “...unless present policies and programs are changed so that they counter, instead of reinforce or accelerate the trends towards ever-larger farming operations, the result will be a few large farms controlling food production in only a few years.”⁷ Looking back now nearly 2 decades later, it is evident that this warning was not heeded, but instead policy choices made since January of 1981 perpetuated the structural bias toward greater concentration of assets in fewer and larger farms and fewer and larger agribusiness firms.

A few statistics illustrate the effects of Federal agricultural policies since Secretary Bergland’s study:

In 1978, there were 2.3 million farms in the United States.⁸
Today, there are 2.0 million farms in the United States.⁹

In 1980, 4 firms controlled 36 percent of the beef slaughter.
Today, 4 firms control 80 percent of the beef slaughter.¹⁰

⁷ *A Time to Choose: Summary Report on the Structure of Agriculture*. USDA, Washington, DC January, 1981. p. 142.

⁸ *Ibid.* p. 42

⁹ *Structural and Financial Characteristics of U.S. Farms, 1994*. USDA Economic Research Service. p. 18.

¹⁰ Refers to steer and heifer slaughter only. GIPSA, *Packers and Stockyards Statistical Report, 1995 Reporting Year*. SR-97-1, September, 1997. p. 49



In 1980, the farmer received 37 cents of every consumer dollar spent on food. Today, the farmer receives 23 cents of every consumer dollar spent on food.¹¹

Within a few years of printing *A Time to Choose*, American agriculture experienced the worst economic crisis in farming since the Great Depression due to record crop production, falling export demand, and the Federal Reserve's anti-inflationary measures of high interest rates and high exchange rates. Many farmers faced a credit crisis, having borrowed on rising land values in the 1970's to expand operations, resulting in high numbers of bankruptcies and foreclosures among farms of all sizes, bank closings, and agriculture-related business failures. The economic stress took its toll on farm families, sometimes resulting in suicide and divorce, and tore at the fabric of rural community life.

Historical large-farm bias

The 1981 farm bill largely continued the design of the farm programs of the 1970's, despite opposition from a new Administration committed to reducing government intervention in agriculture. Domestic grain surpluses soared due to low acreage set-asides and export markets dampened by high exchange rates. Farm subsidy costs were unprecedented. The new Administration, committed to reducing government spending in agriculture, proposed major cuts in farm price support levels in the 1985 farm bill. However, the farm debt crisis made these proposals politically impossible and they were rejected by the Congress. During this same time, "economic emergency" loans were made to highly leveraged large farms; many of these loans would ultimately go uncollected. It is these loans which constitute 78 percent of currently reported 23 percent delinquency in USDA Direct Lending programs. The final 1985 farm bill retained the basic farm policy mechanisms, but began to put downward pressure on farm prices by freezing target prices, lowering loan rates and subsidizing exports. In 1987, the Administration, under the leadership of Secretary Clayton Yeutter, took its proposals for cutting agriculture spending to the General Agreement on Tariffs and Trade (GATT) and eventually succeeded in winning reductions in agricultural subsidies worldwide.¹²

Following record spending on farm subsidies, and the passage of the Gramm-Rudman deficit reduction law, the 1990 farm bill set in motion a movement to reduce government payments to farmers by instituting the "triple base," which reduced the amount of acreage eligible for payments. This set the course for the most recent policy change in the 1996 Federal Agriculture Improvement and Reform Act (FAIR), which decoupled planting decisions from payments and instead provided "transition" payments scheduled to cease in 2002.

¹¹ 1997 Agriculture Fact Book. USDA, p 10. Includes food eaten at home and away from home based on an average market basket survey. Twenty-three cents represents the gross cash income received by farmers, before farm expenses and labor are subtracted. See also Description of a Small Farm, page 24.

¹² For a comprehensive history of Federal farm policy, see Chapter 3 of "Reforming Farm Policy: Toward a National Agenda," by Willard C. Cochrane and C. Ford Runge, Iowa State University Press, 1992.

Even though only about one-third of U.S. farmers have participated in Federal farm programs, these programs have historically been structurally biased toward benefiting the largest farms. Farm payments have been calculated on the basis of volume of production, thus giving a greater share of payments to large farms, enabling them to further capitalize and expand their operations. Attempts to place caps on the amount of payments per farm have not resulted in their intended effects.

The present system of “transition” payments perpetuates the large-farm bias because the amount of payment is based on historical payment levels. A new risk management tool, “revenue insurance,” also perpetuates a large-farm bias through its provisions of coverage for the few major program commodities with no limit on the amount of coverage provided. Additionally, recent changes in Federal tax policy provide disproportionate benefits to large farms through tax incentives for capital purchases to expand operations. Large-scale farms that depend on hired farmworkers for labor receive exemptions from Federal labor law afforded workers in every other industry, allowing them the advantage of low-wage labor costs.

The Structure of Agriculture Today

The most widely used description of the structure of agriculture is based on the statistic of gross farm sales. USDA Economic Research Service labels three-fourths of the Nation’s farms that have annual gross sales under \$50,000 as “non-commercial” farms, meaning they do not generate enough sales to be commercially viable on their own. Half of these farmers rely on off-farm income. Many dismiss these farmers as “hobby farmers,” implying that their goals do not include making a profit. This categorization fails to recognize that for some of these farmers, off-farm jobs are not a choice, but a necessity due to the inability to obtain an adequate return from farming. And in some places, such as Indian reservations, off-farm jobs are not available at all. Even for farmers in the next highest sales class, from \$50,000 gross sales to \$250,000 gross sales, where 86 percent of these farmers count farming as their primary occupation, the average return on equity is negative.¹³

Another popular statistic used to describe the structure of agriculture is the contribution of value of production per sales class. Farms with gross sales under \$250,000 make up 94 percent of all farms. However, these farms receive only 41 percent of all farm receipts. In other words, out of 2 million farms, only 122,810 of the super-large farms receive the majority of farm receipts.

¹³ Structural and Financial Characteristics of U.S. Farms, 1994. USDA Economic Research Service, p. 20.



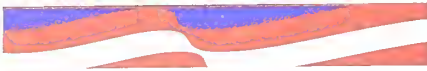
There is a danger in relying on gross sales statistics to provide the whole picture of the structure and performance of agriculture today. While agriculture has become more segmented and specialized, most analyses of gross sales statistics have failed to distinguish between the differing, and often value-adding levels of production. Of course farms with higher levels of gross sales would appear to be more productive. Yet a closer examination shows many of those high-end operations are dependent on primary-level production constituting cow/calf, lambing, farrowing, or grain production. A simple indicator of the differences can be shown in cattle production. The average size cow/calf operation in the United States is 49 head. A medium-sized feedlot operation averages 10,000 head, yet depends upon the primary calf production as its source for feeder cattle. Without more precise indicators to measure the contribution of the primary level of production, an appreciation of the productive contributions of small farms is diminished.

When a gross sales statistic is used combining all agricultural sectors, it can generate the conclusion that large and super-large farms produce most of the food and fiber in this country, when, in fact, the most critical production occurs at the primary level. Conclusions and policies which focus on the large and super-large farms as an inevitable result of economic progress may be ignoring the small farm as the most vital component of all food production.

Many people consider a few, large farms an inevitable result of economic progress. For example, a Wall Street Journal writer recently expressed with a fair amount of conviction that "In fact, local dairies aren't necessary anymore. Megafarms are springing up in such places as New Mexico and Idaho that produce milk far more cheaply than the postcard pretty Vermont dairy farm. In addition, processors are experimenting with filters to remove the water from milk, which makes shipping it cross-country cheaper."¹⁴

The "get big or get out" policy drives of the past fail to recognize the real cost of this kind of "economic progress." This perspective does not consider the loss of market competition when production is concentrated in a monopoly market. It does not consider the cost of potential environmental consequences of concentrating a large number of animals in limited areas. It does not consider the risk to the security of our milk supply should disease or natural disaster strike these few megafarms. It does not consider the cost of increased use of fossil fuels to ship milk across the country. It does not consider the increase in bacteria when water is extracted. Contrary to popular belief, large

¹⁴ Kilman, Scott. "Inside the Byzantine World of Milk Prices." Wall Street Journal. November, 25, 1997.



farms do not produce agricultural products more efficiently than small farms, especially when real costs are taken into account.

Furthermore, the assumption that large farms are more efficient because of economies of scale was challenged by presenters at the Commission's public meetings. Statistical analysis conducted by Professor Willis L. Peterson from the University of Minnesota examined the factors that make up the Census of Agriculture statistical measure of economies of size. Peterson found that factors other than size influence the unit costs in agriculture. After accounting for the quality of land and farm management, subtracting the contribution of the farmhouse to farm output, and considering the effect of opportunity costs related to off-farm employment on farm output and production costs, Peterson asserts "that small family and part-time farms are at least as efficient as larger commercial operations. In fact, there is evidence of diseconomies of scale as farm size increases."¹⁵

Small farms cannot exist in a vacuum as relics of days gone by preserved for the tourists or nostalgia for how most everyone's great grandparents lived. Small farms are a vital functioning part of a working landscape that includes Jeffersonian entrepreneurs of all kinds—locally owned grocery stores, garages, machinery dealerships and other businesses operating on a similar scale as the farmers they both serve and depend on.

—Clark Hinsdale, Vermont

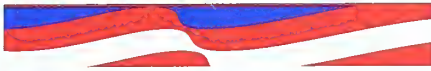
The "diseconomies of scale" extend beyond the farmgate to affecting the farming community. There is a substantial body of literature that suggests that large-scale agricultural production does not bode well for conditions in farming communities. University of California anthropologist Dean MacCannell wrote, "As farm size and absentee ownership increase, social conditions in the local community deteriorate. We have found depressed median family incomes, high levels of poverty, low education levels, social and economic inequality between ethnic groups, etc.... associated with land and capital concentration in agriculture.... Communities that are surrounded by farms that are larger than can be operated by a family unit have a bi-modal income distribution, with a few wealthy elites, a majority of poor laborers, and virtually no middle class. The absence of a middle class at the community level has a serious negative effect on both the quality and quantity of social and commercial service, public education, local governments, etc."¹⁶

The public value of small farms

The Wall Street Journal writer did not consider the benefits that result from a large number of farms under a system of widespread ownership rather than concentration of our food supply in a few megafarms. Economic statistics speak only to the "product output" of farms by measures of crop and livestock sales and they likely underestimate the economic contributions of small farms stated earlier. These numbers do not reflect the social and environmental goods produced by a large number of small farms. Some of the public values generated by small farms include:

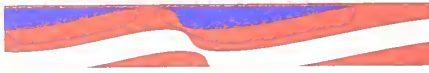
¹⁵ Peterson, Willis L., "Are Large Farms More Efficient?" Staff Paper P97-2, University of Minnesota, Department of Applied Economics, January 1997.

¹⁶ MacCannell, Dean, "Agribusiness and the Small Community," Background paper to Technology, Public Policy and the Changing Structure of American Agriculture, Office of Technology Assessment, U.S. Congress, Washington, DC, 1983.



- **Diversity:** Small farms embody a diversity of ownership, of cropping systems, of landscapes, of biological organization, culture and traditions. A varied farm structure contributes to a diversity of cropping systems and, therefore, to biological diversity. A large number of smaller farms contributes to a diverse and esthetically pleasing rural landscape and open space, particularly appreciated by urban people as well as rural neighbors. Connection to the land has always been central to the spiritual and cultural values of our country's indigenous people. Additionally, widespread ownership of land is an essential principle of our Nation's earliest public policies. And land ownership and farming provided a foundation for community and tradition for the new settlers and pioneers who often fled from oppressive regimes to seek greater opportunity in America.
- **Environmental benefits:** Approximately 60 percent of all farms are less than 180 acres in size, indicating that the majority of farmland is managed by a large number of small farm operators.¹⁷ Responsible management of the natural resources of soil, water, and wildlife encompassed by these operations produces significant environmental benefits for society to enjoy. Therefore, investment in the viability of these operations will yield dividends in the stewardship of the Nation's natural resources.
- **Self-empowerment and community responsibility:** Decentralized land ownership produces more equitable economic opportunity for people in rural communities, as well as greater social capital. Owner-operated farm structures offer individual self-employment and business management opportunities. This can provide a greater sense of personal responsibility and feeling of control over one's life, characteristics that are not as readily available to factory line workers. Land owners who rely on local businesses and services for their needs are more likely to have a stake in the well-being of the community and the well-being of its citizens. In turn, local land owners are more likely to be held accountable for any negative actions that harm the community.
- **Places for families:** Farms, particularly family farms, can be nurturing places for children to grow up and acquire the values of responsibility and hard work. The skills of farming are passed from one generation to another under family ownership structures. When farm children do not return to farming because of their desire for more financially secure careers, a generation of farming knowledge, skills, and experience is lost.

¹⁷ 1995 Farm Costs and Returns Survey. USDA Economic Research Service.



- **Personal connection to food:** With less than 2 percent of the Nation's population engaged in farming, most consumers have little connection to agriculture and food production. As a consequence, they have little connection with nature, except as a place for recreation, and lack an appreciation for farming as cultivation of the earth for the production of food that sustains us. Through farmers markets, Community Supported Agriculture, and direct marketing strategies of small farmers, people are beginning to connect with the people growing their food. Consumers are developing meaningful, direct relationships with farmers and a connection with food as a product of a farmer's cooperation with nature.
- **Economic foundations:** In some States and regions of the country, dispersed farm operations are key to economic vitality. Historically, decline in U.S. farm numbers were more than offset by increases in productivity and output. However, this does not appear to be the case in places like Wisconsin, a State whose farm economy has been characterized by a large number of moderate-sized family-operated dairy farms. Since 1988, total volume of milk produced in the State has dropped and the real value of gross sales has also decreased. The loss of dairy farms in this case has meant a loss to the State's economic output.

Our elders say that money is just money for it is the land and water that will house, feed, and nourish the Hopi people in the distant future. It is the land that will remain to remind the children about traditions, beliefs, customs and life ways. It is this land that we will call home.

—Michael Elmer, Hopi Tribe

Why are small farms at risk?

As with most major industries, ownership and control over agricultural assets are increasingly concentrated in fewer and fewer hands. Concentration translates into the loss of open and competitive markets at the local level. Farmers operate in a market made of many sellers and few buyers. Farmers have little to no control over setting the price for their products. The basic tenets of a "competitive" market are less and less evident in crop and livestock markets today.

The recent passage of the 1996 FAIR Act is a watershed event in the history of Federal farm policy. It signals the reduction and eventual elimination of government intervention in commodity markets as a means to provide income and price stability for the farming sector.

Finally and most importantly, technology and market changes have shifted economic opportunities off of farms and into the agricultural input and post-harvest sectors. As research was focused on developing technologies that use ever greater levels of capital to enable fewer people to produce the Nation's food, income and opportunities shifted from farms to the companies that produce and sell inputs to farmers. As farmers focused on producing undifferentiated raw commodities, food system profit and opportunities were shifted to the companies that process, package, and market food. Consequently, from 1910 to 1990 the share of the agricultural economy received by farmers dropped from 21 percent to 5 percent.¹⁸

¹⁸ Smith, Stewart, "Farming: It's Declining in the U.S.," Choices, First Quarter 1992.



The combination of increased concentration among food processing companies, loss of competitive markets, and reduction of price stabilizing tools of government will place farmers in increasingly vulnerable situations. Farmers will find themselves with less and less control over their economic security.

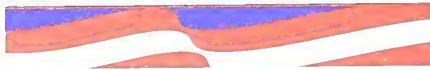
A Time to Act

It is with full recognition of this increased economic vulnerability that the National Commission on Small Farms conducted its work. The Civil Rights Action Team report established the rationale for the Commission by recommendation No. 36. In addition to racial discrimination, government policies and practices have discriminated against small farm operators and poor farmers. In some cases, such as commodity program policies, this discrimination was explicit. In other cases, the bias was less intentional and reflected simple ignorance of the specific needs of small farms. This problem was affirmed by the many hours and pages of testimony received by the Commission.

This report addresses both forms of bias. It recommends changes in policies, programs, and administrative management practices that explicitly disadvantage smaller farms. It also recommends changes that will give due recognition to the benefit of small farms to society.

In 1980, Secretary Bergland proposed a "Time to Choose" the future direction for our Nation's agriculture. The National Commission on Small Farms has outlined in the contents of this report, an opportunity for Congress and the USDA to act on these recommendations to improve the well-being of our Nation's small farms and support the contributions they make to our American society.

On more than one occasion, farmers who spoke at the public meetings referred to the Commission as "our last hope." A choice was made nearly 20 years ago to diminish the role and relevance of small farms in this country. It is with conviction and hope that the National Commission on Small Farms is asking Congress and the USDA to *act on the needs of America's small farmers*.



IV. The USDA National Commission on Small Farms

In February 1997, USDA released a report by the internal USDA Civil Rights Action Team (CRAT). The CRAT report included 92 recommendations on changes in management, program delivery, and employment practices to address the long-term bias and discrimination against minority farmers and minority employees at USDA. The CRAT also identified discrimination against small farmers and recommended to Secretary Glickman that he “appoint a diverse commission to develop a national policy on small farms.”¹⁹

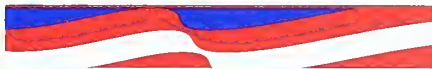
In July 1997, Secretary Glickman appointed a 30-member Commission of volunteers from across the country. The Commission consisted of people who are farmers and ranchers, staff of nonprofit farm and farmworker advocacy organizations, Extension professionals, current and former public officials, and philanthropic foundation program staff.

The Commission began its work in Memphis, Tennessee, on July 28 by receiving testimony from farmers and small farm advocates. Subsequent public hearings and meetings were held in Sioux Falls, South Dakota, on August 21 and 22; Washington, DC, on September 10 and 11; and Sacramento, California, on September 15 and 16. Three smaller meetings were held in Albany, New York; Albuquerque, New Mexico; and Portland, Oregon. Additional meetings were conducted by individual Commission members in various locations, including Fresno, California; Lihue, the Island of Kauai, Hawaii; and South Carolina. The meetings were attended by approximately 800 people. In total, the Commission heard oral testimony from 200 people and received written testimony by mail and facsimile from 165 people.

The Commission divided into 5 topical committees: Conservation, Credit, Research and Extension, Marketing, and Definition. Each committee developed recommendations relating to the specific functions of USDA before integrating the recommendations under 8 policy goals. While the Commission could not possibly respond to each individual issue raised in testimony, they deliberated on many issues and identified those most critical to the well-being of small farms.

The time constraint placed upon the Commission did not allow for the conduct of any original research or analysis of the effects of USDA's current programs, practices, and policies on the Nation's small farms. There was not time to conduct in-depth reviews of USDA programs, rules, and regulations. Instead, the Commission evaluated the problems and solutions suggested by the testimony received and relied on their own experience, knowledge, and creativity to craft this set of recommendations for consideration by Secretary Glickman. The Commission feels a strong need for continued dialogue about the status of small farms in this country and USDA's responsiveness to their needs. Therefore, the Commission submits its first recommendation as follows:

¹⁹ Recommendation No. 36, Civil Rights at the United States Department of Agriculture. A Report of the Civil Rights Action Team, February 1997, p. 71.

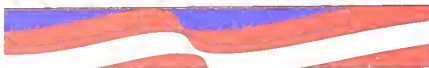


Recommendation

Secretary Glickman should prepare a progress report and reconvene the Commission within 9 months of receipt of this report to assess progress in bringing about changes consistent with the recommendations, and to provide input on emerging concerns within the Commission's domain. Upon immediate transmission of this report to Secretary Glickman, Commission members should meet with key Subcabinet members, Agency Administrators, and program staff to review the recommendations in dialogue with USDA officials. If at all possible, the Commission should remain activated through its chartered ending date of 1999. A public and written progress report should be presented at the National Conference on Small Farms scheduled for 1999.

The Commission also recognizes that State and local government policies, programs, and regulations affect the viability of small farms throughout the country. Issues such as property taxes and State assistance programs administered by the State departments of agriculture, land-grant universities and other publicly funded colleges and schools, all impact agriculture and the probabilities of success for small farms in each State. The Commission encourages the Nation's governors, legislatures, State departments of agriculture, and land-grant universities and colleges to examine how their institutions might better serve the needs of small, beginning, women, and minority farmers in their States. This might be accomplished by an appointed commission of diverse stakeholders, community-based organizations, farmers, and public officials, modeled after the USDA National Commission on Small Farms.





V. A Vision for Small Farms in the 21st Century

Small farms have been the foundation of our Nation, rooted in the ideals of Thomas Jefferson and recognized as such in core agricultural policies. It is with this recognition of our Nation's historical commitment to small farms that we renew our dedication to the prominence of small farms in the renewal of American communities in the 21st century. Black, Hispanic, Native American, Asian, women, and other minorities have contributed immensely to our Nation's food production and their contributions should be recognized and rewarded.

It is our resolve that small farms will be stronger and will thrive, using farming systems that emphasize the management, skill, and ingenuity of the individual farmer. We envision a competitive advantage for small farms realized through a framework of supportive, yet responsible, government and private initiatives, the application of appropriate research and extension, and the stimulation of new marketing opportunities. As small farmers and farmworkers succeed in this nurturing environment, not only will they continue their valuable contribution to the Nation's food supply, but they will also fuel local economies and energize rural communities all across America. In the process of flourishing, small farms will contribute to the strengthening of society, providing communities and the Nation with opportunities for self-employment and ownership of land, and providing a cultural and traditional way of life as well as nurturing places to raise families.

We emphasize public policies that recognize the value of small farms and actively encourage their growth and continuation. These policies are essential to the realization of this vision; so too are policies that recognize and reward the contributions of farmworkers and their families. Toward this end, the Commission has articulated goals and made specific recommendations to guide the decision-making of the Secretary of Agriculture, the Executive Branch, and Congress into the next century.



VI. Guiding Principles for Federal Farm Policy

We recommend that farm policy decisions adhere to the following guiding principles for affecting the structure of the U.S. agricultural system:

Safe and healthy food – Farm policy should encourage farming systems that produce safe, healthy, and diverse food.

Relationships between farmers and consumers – Farm and food policy should create greater opportunities to connect farmers with consumers directly to enable farmers to respond to changes in consumer demand and stimulate increased interest in agriculture among consumers.

Community – Farm policy should support an agriculture that sustains and strengthens rural communities and celebrates cultural diversity and a traditional way of life.

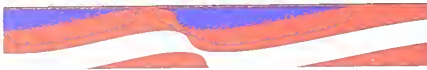
Stewardship of natural resources – Farm policy should give incentives to reward responsible stewardship and care of the land, water, and air.

Safe, responsible conditions for farmers and their workers – Farm policy should enable farmers and their workers to work in safe and responsible working environments.

Fair and open markets – Public policy should result in vigorous competition in open markets that are fair to producers of all sizes and devoid of price discrimination. It should strive to create a diversity of markets for a diversity of unique products, producers, and consumers.

Provide opportunity for many – U.S. agricultural policy should open opportunity for more American people to own and operate farms as a livelihood. It should enable people who want to farm to gain access to land and other productive assets whether by lease or purchase. A person's options and abilities to participate in farm ownership or operation should not be compromised or abrogated on account of their ethnicity, gender, or other non-merit related, demographic characteristics.

Farm income – Farm policy should enhance opportunities for people to generate farm incomes comparable to other economic sectors. That must involve efforts to reverse the long-term trend toward a declining share of food system income accruing to farmers and ranchers, in relation to the input and post-harvest sectors.



VII. Description of a Small Farm

In developing its recommendations, the Commission describes small farms as farms with less than \$250,000 gross receipts annually on which day-to-day labor and management are provided by the farmer and/or the farm family that owns the production or owns, or leases, the productive assets.

This description is not intended for use as an eligibility guideline. It is intended only to generally describe the farms that we believe should be given priority consideration by USDA, with special emphasis on those with the greatest need to improve their net farm incomes.

We recognize that small farms vary by region and commodity. While \$250,000 in gross receipts may not sound small, and in fact may be high for some commodities, in other areas, it is barely sufficient to provide a net farm income comparable to the income of the average non-farmer and farms up to that size are among those whose survival is most endangered. For example, the average farm with annual gross sales between \$50,000 and \$250,000 has a net cash income of only \$23,159. Over 80 percent of a farmer's gross sales are absorbed by farming expenses. (See Figure 2 and Box below.)²⁰

This description of small farms includes approximately 94 percent of all U.S. farms. These farms own 75 percent of the total productive assets in agriculture, mostly land, and receive 41 percent of all agricultural receipts. This description includes 41 percent of all farmers who consider farming their primary occupation and an equal percentage of farmers work part-time on the farm and rely on non-farm jobs as their primary source of income. Most of the farm units usually referred to as "family farms."

Looking at farms with gross sales between \$100,000 and \$250,000, there is great variety in gross sales based on the value of the commodities grown and the mix of commodities, fixed and variable expenses, and ultimately, in net farm income. For example, a typical wheat farm in 1993 received gross cash income of \$153,219 but after cash and fixed expenses, depreciation and labor were paid for, the net farm income was \$28,575. Cattle producers in 1993 did not fare as well. A typical beef operation received gross cash income of \$150,092. But after cash and fixed expenses, depreciation and labor were paid for, the net farm income for a typical beef operation was \$13,509.

Prepared by the Economic Research Service from the
1991-1994 Farm Costs and Returns Survey.

²⁰ Prepared by the Economic Research Service from the 1991-1994 Farm Costs and Returns Survey.

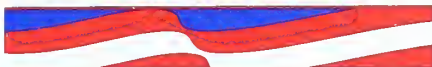
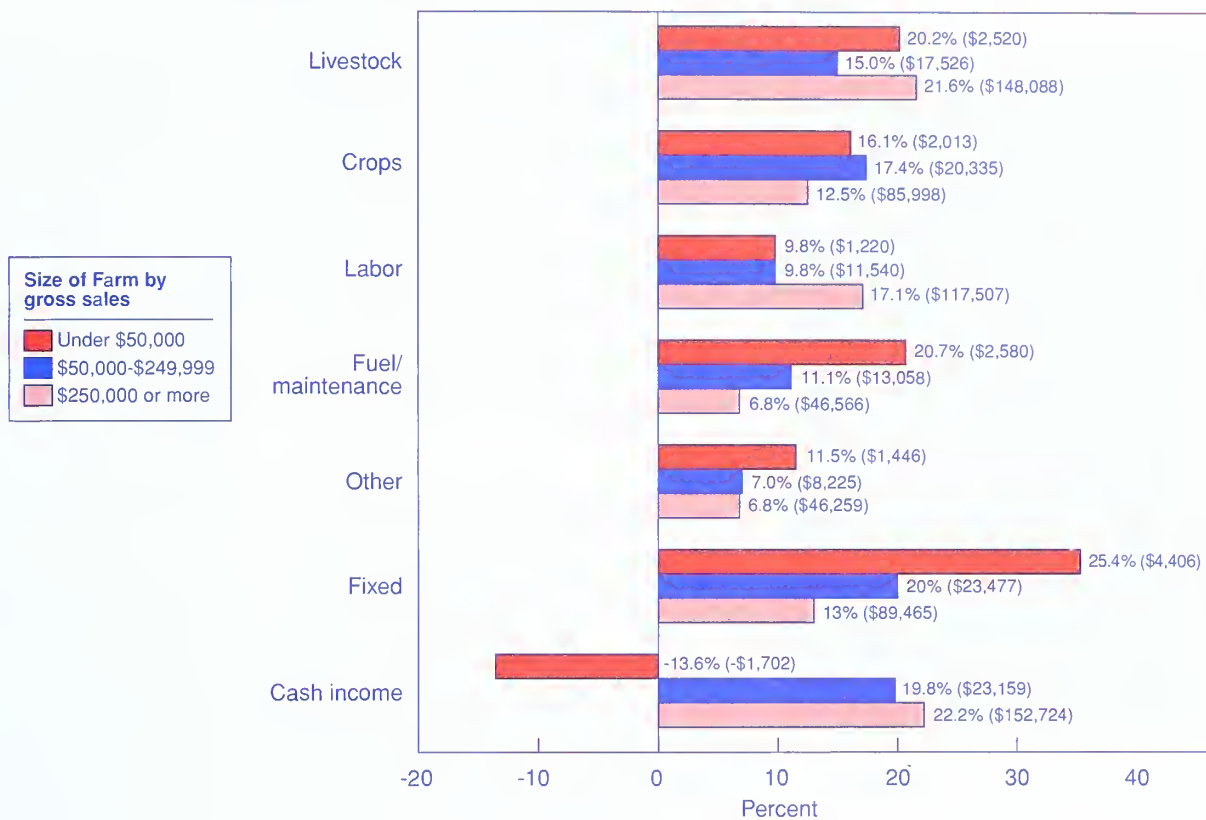


Figure 2

Cash Expenses and Income as a Percent of Gross Cash Income, By Size of Farm, 1995



Source: 1995 Farm Costs and Returns Survey

Note: Dollar amounts are a national average.

Policy Goal 1

Recognize the Importance and Cultivate the Strengths of Small Farms



As outlined in the Introduction, small farms possess unique potential to “produce” not only foodstuffs, but a variety of economic, social, and environmental goods. Small farms are in a better position to respond to specialty products for a narrow consumer taste than larger, more standardized farming operations. When small farms optimize their small landholdings with a variety of crops farmed in rotation and integrated with livestock production, they produce a source of biological diversity and ecological resilience not found in larger, monocropping operations. When they directly market their production to consumers through farmers markets, pick-your-own or Community Supported Agriculture²¹ methods, they provide urban people with a social connection to farming, farmers, and rural people and a health, fresh food supply.

The challenge, therefore, is to develop a national policy initiative that builds on the strengths and unique capabilities of small farms, that recognizes the social and ecological benefits of small farms, and that capitalizes on the labor and ingenuity of small farm operators to improve economic opportunity and benefits to rural communities. In situations where farmers have pursued off-farm employment for reasons of lack of farm profitability, the challenge is to create new opportunities for these farmers to increase their farm earnings. Innovative business strategies need to be designed to optimize the mix of labor, capital, and natural resources appropriate to the size and scale of small farms. Opportunities for farmers to use more knowledge and management-intensive production systems, rather than capital-intensive methods, are needed. Methods are needed that generate and sustainably utilize the natural productivity found in biologically diverse farming systems and more inputs can be derived from on-farm biological resources. For example, in some instances, livestock manure or cover crops can replace purchased nitrogen fertilizer.

At the same time, those policies that frustrate the potential of small farms should be identified and removed. In particular, policies that favor large farms disproportionately should be restructured to level the playing field among farms of all sizes and scales.

Some USDA programs disproportionately benefit those farms that are the least in need of government assistance. While about one-third of all farms participate in the Federal commodity programs, they have historically been designed to benefit larger farms. In 1995, the 11 percent of small farms which had gross sales between \$100,000 and \$249,999 received 28 percent of commodity program payments. Large farms (6 percent of all farms), with gross sales of

²¹ Community Supported Agriculture refers to a farm operation where customers buy shares in the annual production of the farm in exchange for a given amount of food on a weekly basis.



The opportunities that exist for small-scale agriculture have to do with relatively minor crops, specialty crops, high-value crops, in many cases, organic fruit and vegetable production, and those types of commodities are not currently served by traditional experiment station structure or traditional USDA programs.

– Mark Gaskell, California

more than \$250,000, received 31 percent of commodity program payments. Small farms averaged payments of \$11,174 per farm, while large farms received an average of \$20,048 per farm. The larger the farm, the larger the payment. Government payments account for only 2.4 percent of gross cash farm income for the very large farms, but are more critical to the smallest farms that rely on government payments for 41 percent of their gross cash farm income.²²

Federal farm policy should recognize that large-scale agriculture is not and should not be the only model for agricultural production, but that multiple and diverse models are necessary for economic, ecological, and social stability in our food and agricultural system. This approach requires a new way of thinking about the contributions of small farms. It requires recognition that small farms produce social and environmental goods of value to society that warrant public support.

Research and Extension

A great deal of agricultural research has focused on improving efficiency by utilizing ever greater levels of capital to enable fewer people to produce the Nation's food and fiber. Some of these technological applications demand investments that require increased scale of operation to achieve reasonable rates of return on investment. In other words, farms have grown in acreage to spread capital costs across more units of production and more of the profit has been captured by companies that sell inputs to farmers. The resulting gains in productivity, as measured in units of land or labor, have been the great success story of publicly funded agricultural research and technological innovation and adoption. But, relatively little research has focused on improving farm efficiency and income by developing new knowledge that enables farmers to use their management to reduce capital expenditures, produce products of higher value, and capture a larger share of the food dollar.

Recommendation 1.1

USDA's Research, Education and Economics (REE) Mission Area should design and implement a small farm research initiative dedicated to optimizing the skilled labor and ingenuity of small farmers and the biological assets of their farms using less capital-intensive investments. The research design should include biological, economic, and social research as an interdisciplinary approach. The initiative should respond both to the threats to small farm viability as well as to future opportunities not yet explored.

Recommendation 1.2

The Economic Research Service (ERS) should analyze the systems, strategies, and technologies used by successful small farms, to learn how USDA can better assist small farm operators in achieving success. Using existing farm records systems, ERS should identify small farms that are performing well

²² Structural and Financial Characteristics of U.S. Farms, 1994/AIB-735. Economic Research Service, USDA. p. 21. "Government payments" includes all receipts from State and Federal governments, including deficiency payments, storage payments, disaster payments, conservation cost-share payments, CRP payments, etc.

The fact that we have fewer and fewer extension agents and fewer and fewer dollars going into our genetic preservation and into research and education, it's just tragic. The privatization of information and technology is the greatest hurdle faced by agriculture.

– John Happala, Oregon.

(have a low cost of production and are earning attractive family incomes) and conduct in-depth analysis of those farms, including their production systems, management strategies, technologies employed, and marketing approaches. Market research should analyze consumer preference trends that provide opportunities for small farms and identify the potential markets for exports from small-scale producers. For example, sales of organic produce, including exports, have grown 20 percent per year recently and are expected to rise with implementation of the National Organic Standards, but USDA's research portfolio includes only one-tenth of 1 percent of research relevant to organic farming.²³ The results should be used to identify research and other programs that could contribute to small farm success. This analysis should be conducted in partnership with land-grant universities, nonprofit organizations, and farmers themselves. The results of this research should be published in suitable format for reference and use by all farmers who may choose to implement the findings.

At the same time, ERS should assess the impact of national economic and policy forces influencing the prospects for small-scale agriculture. In particular, ERS should examine the threats and opportunities for small farms in the context of the 1996 FAIR Act and the North American Free Trade Agreement. This study should determine how these policies affect risk to small farms on a regional and commodity basis.

Recommendation 1.3

After identifying the principles of successful models, the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) should design research according to the principles in order to meet the specific needs of small farmers that maximize the potential productivity of their mix of assets. The research agenda should include the development of technologies appropriate for small-scale farms.

Recommendation 1.4

The ARS should commit to research strategies that will strengthen small farms. By the year 2002, at least two-thirds of the ARS research portfolio should consist of projects that have been determined to contribute to the income-earning capacity of small farms and their competitiveness in an increasingly industrialized agricultural economy. Adjustments in research directions should be made as needed to ensure that the overall impact of each major initiative is neutral or positive with respect to small farm opportunities. This initiative can be formulated by taking the following steps:

- a) Utilize results from the ERS study (1.2 above) to identify technological models that work for small farms and afford future market opportunities for small farms.
- b) Seek input on priority small farm research needs from small farmers, nonprofit organizations that work with small farmers, and land-grant scientists whose work is focused on strengthening small farms.

²³ Written testimony of Mark Lipson, Organic Farming Research Foundation, Santa Cruz, CA. September 22, 1997.



- c) Conduct technology assessments to identify program areas and research directions most helpful to small farmers, including beginning farmers.
- d) Increase research to strengthen the competitiveness of small farm livestock production, address the plant breeding needs of small farmers using low-capital sustainable production systems, and develop integrated farming systems for small farms.

Recommendation 1.5

USDA competitive grants programs for agricultural research and extension should prioritize research that contributes to the income-earning capacity and competitiveness of small farms in an increasingly industrialized agricultural economy. Assessments of the impact of alternative research directions should be conducted to determine their impact on small farm viability. The assessments, together with input from small farm operators, nonprofit organizations and land-grant scientists who work with small farm operators, should be used to develop Requests for Proposals that emphasize small farm needs. Qualified small farm operators, and nonprofit organizations and land-grant scientists who work with small farm operators, should be included on proposal review panels. Program guidelines should be reviewed and barriers removed to participation by nonprofit institutions. A goal should be set to devote two-thirds of CSREES production and marketing research by the year 2002 to projects that contribute to the income-earning capacity and competitiveness of small farms. Progress toward that goal should be measured annually.

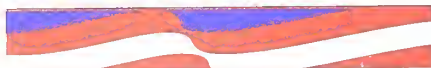
Recommendation 1.6

The Research portion of the Fund for Rural America should be refined to more effectively support small farm opportunities by:

- a) Making clear, through the Requests for Proposals, as well as instructions to review panels, that increasing opportunities for small and beginning farmers are a priority of the rural development objectives of the Fund;
- b) Directing review panels to give equal importance to scientific merit and project relevance when evaluating proposals;
- c) Directing review panels to give highest scores to projects that address all three of the core Fund objectives — community, environment, and farm competitiveness — in determining the relevance of project proposals to solve real-world problems;
- d) Directing reviewers to give priority to projects that, where appropriate, involve participation of small farm operators and partnerships with nonprofit organizations that work with small farm operators; and
- e) Inviting small farm operators, representatives of nonprofit organizations that work with small farms, and land-grant scientists whose work addresses small farm concerns to serve on the review panels that make the final recommendation (not just as outside reviewers).

Recommendation 1.7

Rural Development's Appropriate Technology Transfer for Rural Areas program (ATTRA) and other small farm programs should develop a clearing-house of available equipment and systems and a means to identify unmet



I would strongly urge the remarriage of agriculture as an engine of change in rural development. It would culminate in a much more comprehensive approach to rural development.

— Michael Sligh, North Carolina

needs. ATTRRA should be formally consulted on a regular basis to provide analysis of what the small farm research needs are to REE agencies. With this information, USDA should collaborate with land-grant colleges, private companies, and small farmers to design machinery, equipment, and systems appropriate for small-scale agriculture.

Agriculture-based rural development

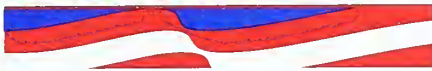
Up until the 1950's, the economy of rural America was based primarily on agriculture. Today, agriculture is the dominant industry in only one-fourth of rural counties. Nonetheless, there are 556 counties, mostly in the Great Plains States, that derive 20 percent or more of their earned income from farming and are therefore classified by ERS as "farming dependent." From 1980 to 1990, 80 percent of farming-dependent counties lost population and farm jobs declined by 111,000. Young people left these communities in search of greater economic opportunity in careers other than farming. The 18- to 34-year-old population in farming-dependent counties declined 17 percent on average from 1980 to 1990.²⁴

Farming-dependent counties, particularly those in the Great Plains, are generally suppliers of raw commodities that are typically shipped out of their communities for processing and value-adding activities elsewhere. Only about 10 cents of the consumer dollar spent on cereal and bakery products are returned to the producers in the grain-growing States of the Great Plains. These communities do not share in the full economic gains from the food industry.

There is a growing recognition among small farmers that if they are to boost their economic returns from farming, they need to find ways to earn a greater share of the consumer dollar by adding value to their own products. These strategies can include farmer-owned cooperatives and other business ventures for the purpose of value-added processing, production, and marketing of crops and livestock.

Because farming is a narrow-margin and high-risk business, rural economic development agencies and professionals have either dismissed or ignored agriculture as an industrial base with potential for growth in rural communities. For example, when contacting some of the State USDA Rural Development offices about upcoming meetings of the Commission in their region, more than once the staff responded by saying, "We no longer do farm programs." While they were referring to the farm credit programs that were moved to FSA, this response was an indication that the rural development programs are not perceived as relevant to farmers. Where agriculture is an important industry, job development could be enhanced through value-added processing, production, and marketing activities.

²⁴ Understanding Rural America. Research report. 25 pp. February 1995. Stock # ERS-AIB-710.



USDA should dedicate a significant portion of its Rural Business – Cooperative Development loan, grant, and cooperative programs and Extension programming to agricultural-based rural development activities. These activities should be specifically tailored to the generation of greater economic opportunities from the products and potential of small farms in their rural communities.

Recommendation 1.8

USDA Rural Development State Directors should include small farm operators and community-based and nonprofit organizations in their strategic planning processes, particularly with respect to the use of their rural business development programming for purposes of agricultural development. The strategic plan should be reviewed annually, with feedback and input from a variety of customers. Special outreach should be done to involve small farm operators, minorities, women, and non-English-speaking cultures. The strategic plans for the rural business development grant and loan programs should include development of agriculture-based businesses, as well as projects that strengthen a local food and agriculture economy through community farmers markets, public markets, and locally owned, value-added food processing businesses and microenterprises.

Recommendation 1.9

Where Rural Development (RD) State Directors have discretion to add additional priorities to the funding criteria for judging the Rural Business Enterprise Grant (RBEG) and Business & Industry (B&I) loan applications,²⁵ State Directors should develop a process for receiving input from stakeholders, including small farmers interested in pursuing value-added agricultural development. This process might include one or more of the following options:

- a) Establish State Small Farm-Business Councils to first assess current small farm needs and then develop methods of addressing those needs through the State Rural Development strategic plans. Membership in these Councils should include but not be limited to Farm Service Agency State Executive Directors; Resource Conservation and Development Councils; State economic development agencies; Cooperative Extension Small Farm directors, administrators, and agents; State departments of agriculture; Small Business Development Centers; district offices of the Small Business Administration; small farmers, American Indian and Alaska Native tribes, community-based and nonprofit organizations, and other farming interests.
- b) Set up a process similar to that described above, but utilize the infrastructure of the State Food and Agriculture Council (FAC).
- c) Solicit ideas for determining the kinds of agricultural development that should be funded with the RBEG and B&I funding within any given State. A “request for comment” period could be publicized in all rural newspapers within a State, asking for input in setting the priority criteria for these programs. Public meetings could also be held to gather input. The RD

²⁵ RD Instruction 1942-G, 1942.305 (b) (3) and RD Instruction 4279-B, 4279.156 (b) (5), respectively.

State Director would set the criteria based on input received and announce the criteria, available funds, and information for obtaining applications in State and local rural newspapers.

Recommendation 1.10

Exclusively target Rural Business development funds including Rural Business Enterprise Grants, Business & Industry Loans, and the Intermediary Relending Program, to assisting the development of farmer-owned cooperatives for small farm operators and small business concerns as defined by the Small Business Act.²⁶ At least 50 percent of all RBEG grant funds should be targeted to give priority to projects that primarily benefit small farm operators, including farmer-owned, value-added businesses, cooperatives, and farmland transition programs. A small farmer-owned value-added business and cooperative should be defined as one in which over two-thirds of the throughput comes from small farms.

Recommendation 1.11

Extension should emphasize market development education and technical assistance to small farmers in addition to production assistance. These educational efforts should be directed at exploring new marketing avenues for small farms, like direct farm-to-consumer markets, local value-added processing, and farmer-owned cooperatives. Market development efforts like those undertaken in the Sustainable Agriculture Research and Education (SARE) program should be used as a model and expanded to other Extension programming. Extension efforts could assist small farmers by developing entrepreneurial training and development in natural resource-based industries. This kind of effort should focus on learning from established farmers and small business entrepreneurs with Extension participating as co-learners with potential entrepreneurs. Extension agents could be most helpful by serving as a facilitator of information and resource providers. This training should include the development of community-based entrepreneurial networks to provide continuous training, mentoring, and support for new business startups within a community. (See also Policy Goal 3, recommendation 3.27).

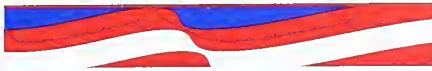
Farm credit

Agricultural operations require high levels of committed capital to achieve success. The capital-intensive nature of agricultural production makes access to financial capital, usually in the form of credit, a critical requirement. Small farms are no different from larger farms in this regard, but testimony and USDA reports received by this Commission indicate a general under-capitalization of small farms, and increased difficulty in accessing sources of credit.

The reduction of price and income support resulting from the 1996 FAIR Act can directly reduce income levels for farmers reliant on government payments and interject increasing instability in agricultural markets. Increased price



²⁶ Sec. 3(a) (1) For the purposes of this Act, a small-business concern, including but not limited to enterprises that are engaged in the business of production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural related industries, shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation: Provided, that notwithstanding any other provision of law, an agricultural enterprise shall be deemed to be a small business concern if it (including its affiliates) has annual receipts not in excess of \$500,000.



volatility decreases the attractiveness of farm lending among commercial lenders. Lenders lose some assurances that their clients will have a reliable source of income to meet loan repayment levels. When commodity prices drop, as is the case currently in the dairy industry, lower on-farm prices combined with the reduction in transition payments from the Federal farm programs, might sharply increase the risk in agricultural lending and increase reluctance in the financial sector to extend agricultural credit.

Direct lending programs of the Federal Government have been increasingly curtailed by Congressional budget actions, diminishing the ability of the USDA to carry out its mission of assistance to America's small farmers. The shift from direct lending to guaranteed lending has been more beneficial to lenders than to farmers. The commercial banks realize virtually the same paperwork and out-of-pocket costs to create a \$10,000 FSA guaranteed loan as to create a \$250,000 loan under the same program, while income is 25 times higher for the larger loan in this example. The result is that small-sized loans and loans which banks are not comfortable with, are increasingly rare. The USDA farm credit program was created to provide a "lender of last resort" to America's small farmers; however, the move away from the direct lending portion of the program has increasingly thwarted this original purpose. Line-of-credit loans authorized in Section 614 of the 1996 FAIR Act were created in recognition of the long-term nature of agriculture, but are not yet implemented. The "Preferred Lender" and "Short Form Application" for guaranteed loans under \$50,000 as required in the 1992 Agriculture Credit Act Amendments are not yet implemented either.

Recommitment to USDA's mission as the "lender of last resort" is needed by focusing greater attention to serving the credit needs of small, minority, and beginning farmers. It should reverse the trend of shifting to guaranteed loans and accelerate action on pending credit regulations to the benefit of small farmers.

Recommendation 1.12

The FSA Administrator should continue a national direct lending and guaranteed lending policy that focuses these programs on small farmers, especially minority and beginning farmers. The policy should include a requirement that repayment periods of the direct acquisition loans reflect the expected useful life of on-farm improvements, equipment, or chattel purchased with loan proceeds.

Recommendation 1.13

Regulatory policy should be changed to limit the FSA County Committee to determining basic eligibility of the borrower as a *farmer*, and not to review credit histories, farm loan applications, or other involvement in the credit process.

Recommendation 1.14

The FSA Administrator should take immediate action to implement the Line-of-credit loans authorized in Section 614 of the 1996 FAIR Act. Line-of-credit loans should be used for all routine and recurring operating loans using either

direct or guaranteed authorities and be targeted to small, beginning, or traditionally underserved farmers. This will extend production credit for a 5-year term without the need for re-application, enable production through good and bad years without interruption, and dramatically reduce staff work required to re-issue production loans yearly.

**Recommendation 1.15**

The FSA Administrator should give highest priority to the promulgation of regulations to fully implement the “Preferred Lender” and “Short Form Application” for guaranteed loans under \$50,000 as required in the 1992 Agriculture Credit Act amendments.

Debt collection and offsets

Statutory provisions defining borrowers’ rights and methods of collection of FSA and other USDA debts have been provided in the 1987 Agricultural Credit Act, the 1992 Farm Credit Improvement Act amendments, the 1996 FAIR Act, and the 1996 Debt Collection Improvement Act. The debt collection and offsetting regulations have created unsolvable conditions for small farmers and left some with no options but bankruptcy.

For example, a livestock producer in North Dakota who suffered severe losses in the 1997 blizzards and excessive feed costs will still owe some unpaid balance on the principal of his operating loan due in the spring of 1998. Offset policy requires that the expected Livestock Indemnity Program payments, implemented by Congress to ease this producer’s financial crisis, as well as any FAIR Act transition payments, be held by the FSA against the unpaid portion of his debt. This producer, being delinquent and offset, cannot seek operating capital from any other source as he has no assignable source of income, and the 1996 farm bill prevents USDA from providing any continuing credit, loan servicing, or new loans. If this borrower was a client of a commercial bank he could negotiate a longer repayment term and remain in business, eventually repaying his entire note with interest. But, because he is a client of the Federal Government under current Federal collection policies, the result of the bad winter must be bankruptcy and farm dissolution. Legislative and administrative actions are necessary to correct the credit laws that are in conflict and that act together to the disadvantage of small farmers.

**Recommendation 1.16**

USDA should propose legislation to repeal the provisions that prohibit farmers who have previously had “debt forgiveness” from receiving any USDA loans or credit assistance.

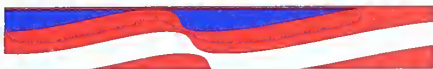
**Recommendation 1.17**

USDA should propose legislation to re-instate the loan servicing methodologies and timelines provided in the 1992 Farm Credit Improvement Act amendments.

**Recommendation 1.18**

The Secretary should request the necessary waiver from the Treasury Department to eliminate the offsets in the following conditions:

- a) debt collection, until all loan servicing options have been exhausted (otherwise, offset eliminates loan servicing options);



- b) all loan proceeds, including Commodity Credit Corporation loans and emergency loans;
- c) all emergency program proceeds, including the Livestock Indemnity program;
- d) where a previously approved assignment of proceeds is in place, existing assignments should be honored prior to offset in order to maintain the integrity of the FSA programs and their acceptance in the community.

Recommendation 1.19

The U.S. Attorney should observe the moratorium on foreclosures pending case reviews issued by Secretary Glickman. This action is necessary because, despite assurances to individuals and groups, in many States the U.S. Attorney's Office is continuing to process and enforce foreclosures and indicate that the Secretary of Agriculture's moratorium has "no force or effect" on the U.S. Attorney.

Recommendation 1.20

The Farm Service Agency should develop new lending procedures which substantially reduce the application process and form requirements for direct and guaranteed loans so that all loans can normally be approved or disapproved within 30 days of application; publish a formal check-list of application requirements so that applicants are fully aware of what is needed for a complete application; expeditiously allocate appropriated direct loan funds to the appropriate State FSA Offices with an absolute minimum held at national headquarters in Washington, DC; and, for loans under \$50,000, develop a separate short loan application form and a less intensive review process.

Recommendation 1.21

The FSA Administrator should issue a national policy directive to reinforce or establish that an FSA appraisal shall remain in force for 1 full year; that all FSA appraised values for land, equipment, and chattel shall always be based on current agricultural use, not other potential development; that farmers shall be provided with copies of appraisals and supporting documents within 5 working days of completion of the appraisal; that appraisal reports shall be appealable decisions; and the proper method of contesting an appraisal shall be the existing formal USDA appeal process.

Recommendation 1.22

The Secretary should take immediate action to mitigate the pending credit crisis in the shared appreciation cases by asking Congress to extend the 10-year shared appreciation period for small farmers until the land is sold. In addition, the FSA Administrator should issue a national policy that specifies that for purposes of determining the value of shared appreciation, on-farm improvements made during the life of appreciation plus any overall increase in the value as a result of the improvement, shall be subtracted from the appraised value, and that non-program loan fund authorities shall be used to extend appropriate payment terms for small farm operators with shared appreciation debts.

Indifference and discrimination

There has been an indifference to the needs explicitly unique to small farms, including minority and women-owned farms, for the last several decades. While there are USDA programs that assist small farms, they are generally underfunded and at levels that pale in comparison to the needs of the clientele and are not at all commensurate with the number of small farms. An explicit policy focus on small farms is needed to ensure that USDA's research, extension, marketing, credit, rural development, and conservation programs will undergird the performance of these farms.

Most disturbing are the indifference and blatant discrimination experienced by minority farmers in their interactions with USDA programs and staff. The Civil Rights Action Team, through its set of hearings and its report, boldly identified specific concerns of African-American and other minority farmers regarding relations with USDA's agencies with respect to credit, extension, applied research, and outreach. The history of discrimination by the U.S. Department of Agriculture in services extended to traditionally underserved²⁷ farmers, ranchers, and small farmers, and to small forestry owners and operators, is well documented. Discrimination has been a contributing factor in the dramatic decline of Black farmers over the last several decades. (See Figure 3). It was the complaints of discrimination against Black farmers in December of 1996 that gave rise to the creation of the National Commission on Small Farms. The Commission heard testimony in Tennessee, California, and Hawaii regarding the need for USDA, the land-grant university system, and nonprofit organizations to specifically target underserved minority farmers. The National Commission on Small Farms makes the following recommendations relative to civil rights and equal opportunity at USDA:



Recommendation 1.23

The Commission supports the full implementation of all 92 recommendations of the CRAT report and urges the Secretary of Agriculture to move expeditiously to take all actions necessary to implement these recommendations. USDA should give full support to legislation sponsored in Congress by members of the Congressional Black Caucus to make statutory changes to facilitate implementation of the recommendations. The Secretary should make sufficient funding available in budgetary requests and pursue these through the Congressional appropriations process. The Secretary should take discretionary actions to fully implement the CRAT recommendations and institutionalize the process of civil rights implementation, compliance, and enforcement within the USDA. In various sections of our report, the Commission supports, emphasizes, and builds upon various recommendations of the CRAT report. These include: CRAT recommendations 9, 38, 39, 40, 60, 61, 62, 63, and 64.



Recommendation 1.24

The Commission strongly endorses CRAT recommendation No. 28 to develop a national registry of minority farmers and landholdings. The registry will be an important source of information to conduct outreach and support services to

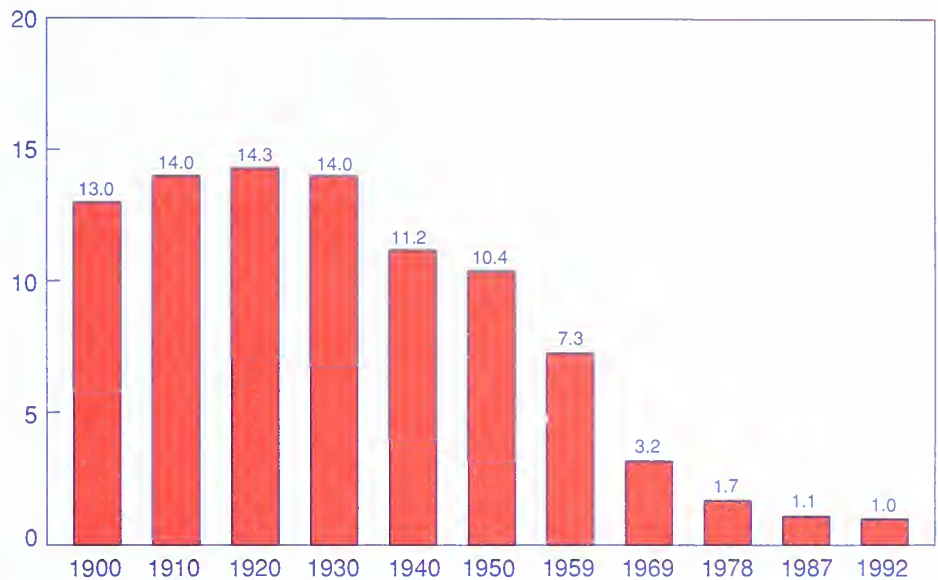
²⁷ "Traditionally underserved" generally refers to ethnic minority farmers, including African-American, American Indian, Hispanic or Asian-Pacific Islanders, as well as women farmers.



Figure 3

**Share of Farms Operated by Blacks,
Selected Census Years, 1910-92**

Percent of all farms



Source: Census of Agriculture, various years.

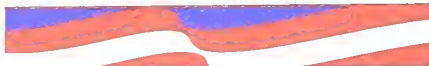
traditionally underserved farmers nationwide. This action will support the Commission's principles of wider opportunities for and pluralism in the ownership of land in our Nation. The registry should be used as a baseline to record the current ownership of farmland by the traditionally underserved and be used to measure the progress toward expansion of minority land ownership in the future.

Recommendation 1.25

There has been a history of under-allocation of resources to institutions that have served minority farmers. These institutions have developed extensive experience, professional expertise, and grassroots programs to serve this clientele. The Commission recommends that a significant share of any new resources directed at serving these traditionally underserved farmers be allocated to and provided in partnership through the 1890 Land-grant Colleges and Universities, the 1994 Tribal Colleges, and those 1862 Land-grant Universities with demonstrated programs of support for traditionally underserved farmers, and community-based organizations that have a history, demonstrated experience, and expertise in serving minority farmers.

Recommendation 1.26

The failure to elect minority farmers to positions on the Farm Service Agency (FSA) County Committees is disgraceful. Only 192 of 1,849 voting members of FSA County Committees are minority farmers. Therefore, the Commission recommends that in counties or multi-county areas where more than 10



percent of the farm owners and operators registered with the FSA office are minority farmers, one or more members of the FSA committee be a traditionally underserved person, selected by one or a combination of the following methods:

- a) direct election for this specific seat by minority farmers;
- b) cumulative voting to allow minorities to fill seats on the FSA committee in proportion to their involvement in the farm population; or
- c) the county committee be expanded by at least one seat and appointed by the FSA State Executive Director, based on nominations by traditionally underserved farmers in the area or by organizations that represent these farmers.

Recommendation 1.27

The National Commission on Small Farms urges the Secretary of Agriculture to settle all outstanding claims of discrimination by farmers and employees against the USDA. The Secretary of Agriculture should seek to resolve all court cases as expeditiously as possible.

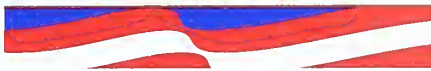
Recommendation 1.28

USDA should recognize the distinct differences and needs of small farmers in the U.S. territories and possessions, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and the Commonwealth of the Mariana Islands. Because of the difference in climate, soils, topography, cultures, and farming traditions, USDA programs applied on the mainland are not always appropriate to serving the needs of farmers in U.S. territories and possessions. The Secretary should assemble a team of field staff from these areas, along with USDA administrators of research, extension, conservation, forestry, and marketing programs, to assess the program barriers to small farm operators from U.S. territories and possessions and make necessary changes to meet their needs.

Tobacco settlement

Farm families and their communities in the tobacco-producing States are experiencing a dramatically uncertain future. For over five decades, small farmers, African-American farmers, and new and beginning farmers in these States were cushioned from many of the economic pitfalls facing other farmers, by a tobacco price support and production control program operated through a partnership with the Federal Government and tobacco farmer organizations. The tobacco program, not simply the crop itself, has enabled small farmers to experience a comfort unlike any other farm group — assurance and certainty based on a system that worked. As they participate in other agricultural markets, count the dwindling profits from other products, and watch neighboring dairy, livestock, and grain farmers failing, tobacco farmers are perplexed by well-intentioned, though profoundly faulty, offerings for their options. It's not the tobacco crop for which there is no alternative, but the tobacco program itself.

It is no accident that the tobacco States and communities, including North Carolina, Kentucky, Tennessee, South Carolina, West Virginia, Virginia, and



Maryland, also represent among the highest concentrations of small and African-American farms. Tobacco income is particularly important to limited-resource farmers, African-American farmers, and the Appalachian mountain regions of the upper South. According to the 1992 Census of Agriculture, tobacco accounts for half or more of total farm sales on nearly one-third of African-American-operated farms in the east coast States from North Carolina to Maine. In these same areas, again particularly in the mountain regions, off-farm income is extremely limited, poverty rates are high, and tobacco farm income constitutes a greater proportion not only of agricultural income, but of overall economic income. In the Appalachian counties of Kentucky, the tobacco-income-dependent counties include those farmers most at risk in the Nation. In eastern Kentucky's Owsley County, for example, the poverty rate in 1990 was 50 percent. Because of the limited availability of off-farm jobs, agriculture is the area's dominant income and the dominant agriculture is tobacco. Welfare reform has only further increased tobacco's importance to the communities.

In the 18th Annual Family Farm Report to Congress, 1993, the USDA reported that although the Corn Belt had the largest number of farms in 1993, the Appalachian Region (Kentucky, North Carolina, Tennessee, Virginia, and West Virginia) was second with 299,000. "Farms, however, were considerably smaller in the Appalachian Region than in the Corn Belt in terms of average acres, average gross cash income, and average gross sales," the report stated, adding that 85 percent of America's tobacco farms are in this region. The USDA reported 91,787 tobacco farms, with 147 acres (mean acres operated), producing \$32,000 (mean gross cash income); and as shown in the following table, the tobacco States correspond to those States with large numbers of small farms.

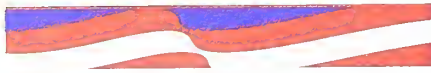
Share of small farms within tobacco states^a

State	Percentage of Small Farms in the State
Indiana	55
Kentucky ^b	73
North Carolina ^b	63
Maryland	61
Missouri	67
Ohio	61
South Carolina	76
Tennessee ^b	82
Virginia ^b	74
West Virginia ^b	88

Source: 1992 Census of Agriculture

^a This listing does not include States such as Connecticut and Pennsylvania where tobacco accounts for only a very small proportion of overall agricultural production.

^b Indicates Appalachian Region State where 85 percent of tobacco is produced.

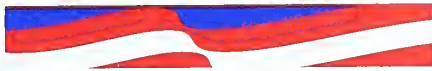


Although tobacco production has been a source of controversy for years, the tobacco program more recently became the focus of more concerted and serious examination with the landmark “global settlement” between the States’ attorneys general and the tobacco companies in June of 1997. This \$368 billion settlement, if approved by Congress, will drastically change Federal regulatory and health policy regarding tobacco sales, distribution, and, by all predictions, tobacco production. The tobacco farmers and the tobacco price support program were not addressed in the proposed tobacco settlement.

Since June 1997, several major Congressional proposals have been introduced affecting both the tobacco product sales, tobacco production and the tobacco program. Since the Commission’s single meeting in tobacco country, held in Memphis shortly after the settlement was announced, Congressional hearings have begun on the tobacco settlement and bills have been introduced to end the tobacco program. If Congress proceeds to cut this safety net out from under them, all tobacco farmers, their communities and urban centers who rely on the tobacco economy will be at great risk, the extent of which is currently only speculative. Agricultural economists in Kentucky estimate that as many as 50 percent of the tobacco farms will be eliminated if the tobacco program is terminated, primarily the small farms.

Recommendation 1.29

The Commission recommends that USDA, the Office of the President, and Congress carefully examine the success of the tobacco program and clearly evaluate the economic, social, and environmental impact of program changes. USDA should proceed immediately to develop a comprehensive assessment of the social, economic, and environmental impact of the Federal price support’s 50-year program in the tobacco-producing States, particularly with respect to the farmers and the communities, towns, and cities directly affected by a tobacco economy, reporting to the President and Congress within 60 days of receipt of the Commission’s report. The assessment should examine both long-term and short-term options and impacts of these options, particularly on small and limited-resource farms and African-American farmers. The study should assess the complex range of social and economic factors associated with the tobacco price support and develop recommendations for systems and processes to stimulate and sustain local economies in the event that the tobacco program is phased out. USDA should conduct this review jointly with other partners and agencies concerned with the full range of a healthy community, including other Federal agencies, such as the Appalachian Regional Commission; Department of Commerce; Environmental Protection Agency; Departments of Health and Human Services, Housing and Urban Development, and Labor; Tennessee Valley Authority; State and local governments, including associations such as the Southern Governors Association, the National Association of Counties, National League of Cities, which provide liaison with State and local governments; private sector representatives including farm service and supply businesses, banks and other lending institutions, manufacturers and small businesses, and organizations which work with local private sector groups; regional and locally based community development corpora-



tions; farm organizations and cooperatives; and nonprofit organizations working with farmers, rural development, public health, and community economic development.

As part of this initiative, USDA should request and assist the Office of the President, jointly with States' Governors and Congressional delegations, in convening town meetings and community gatherings throughout the tobacco-producing States to solicit input and recommendations for sustaining healthy tobacco communities, particularly where small and limited-resource farmers, African-American farmers, and new and beginning farmers operate, with recommendations for the systems and programs for ensuring farmer-based, locally driven community development consistent with good stewardship of the region's natural resources.

Recommendation 1.30

The Commission further recommends that USDA, Congress, and the Office of the President target the Commission's suggestions and recommendations which concern access to credit, market development and opportunities, and new farmer initiatives to the tobacco-producing States and communities for priority testing and implementation in 1998. The targeting should be based on the lessons learned from the assessment described above and the process for its development.

Loan performance reporting

Economic Research Service data on USDA loan performance received by the Commission indicates very high levels of delinquencies, with a 23-percent past due rate on principal and interest in direct loans. Highest delinquencies were reported for emergency loan programs, and loss figures for the program are reported at over \$1 billion for the past 2 years, a figure projected to remain virtually constant. In contrast, guaranteed loan delinquencies and loss figures are reported at significantly lower levels of 2 percent delinquent and annual loss of \$46 million in 1996. With the Commission's increased emphasis on direct lending for small farm operators, it is important to try to determine a reasonable process to improve collections.

In reviewing the data to develop specific recommendations, as well as conferring with representatives of the commercial banking industry, the Commission found that, for numerous critical reasons, the data from commercial lenders and the guaranteed program banks is not comparable with the FSA direct lending data. Federal commercial banking regulations place strict limits on the amount of non-performing or risk-rated loans a bank may have on the books at any one time. These same regulations place specific time limits on the bank's ability to collect unpaid loan balances. It is in the best interest of bank managers to minimize their non-performing portfolio in reports to management and stockholders.

For these simplified reasons, commercial banks take aggressive action to resolve delinquencies, including restructuring loans, re-appraising collateral

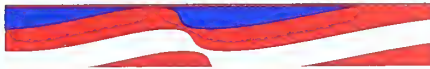


when necessary, entering into long-term repayment agreements and, finally, turning over non-performing loans for collection and taking them off their books. The end result is that banks do not report non-performing loans more than a couple years old; these are written off, sold for collection, or otherwise disposed of to keep the bank's balance sheet in compliance with prudent banking practices and Federal regulation. This is a routine, if undesirable operation which is figured into risk equations for determining interest rates and profit, but because it is a constant, ongoing process, no single year results in delinquency of loss figures above acceptable minimums.

The former Farmers Home Administration credit programs, currently included in FSA, never implemented "prudent banking practices" or other procedures to eliminate bad debts or reflect transfer to collection processes. Additionally, at various times Congress has acted to prevent or modify collection actions. The result is FSA records that include as "delinquent balances" forgiven balances from loans that were written down, debt settled, or foreclosed many years ago. Also included is continuously accruing interest on these amounts, leaving an artificial unpaid balance. Finally, the reports received by the Commission from ERS state that emergency loan programs "account for two-thirds of total deficiencies" and "losses continued to be concentrated in the Economic Emergency and EM (emergency disaster loans) programs." The Economic Emergency Loan program is no longer an active program. It is nearly impossible to determine how to improve FSA collection efforts because direct loan records are not in any way comparable with guaranteed loan records or commercial bank records, and a huge proportion of reported delinquencies are so old and tainted as to be totally uncollectable. This problem will continue to create confusion and Congressional opposition to increased appropriations for direct lending until the books are corrected and comparisons of programs can be based on commonalities.

Recommendation 1.31

The FSA Administrator should enter into a short-term contract with a private firm to audit the FSA direct loan records. The purpose of this audit shall be to develop a process to purge these records of old and uncollectable loans; setup



a procedure for FSA lending programs to implement prudent banking practices in its collection and recordkeeping process; and maintain records acceptable to and comparable with the banking industry. The result of this audit may include recommendations that can be administratively implemented, as well as those which will require statutory change.

Program bias

If the potential contribution of small farms is to be realized, USDA must make concerted efforts to identify and nurture this potential as suggested in the recommendations above. At the same time, those policies and regulations that intentionally or unintentionally stifle the potential growth and productivity of small farms must be identified and changed.

For example, the Commission heard testimony from a Soil and Water Conservation District Director in the Southwest who raised concerns about NRCS' use of "acres of land treated" and "acres brought under conservation plans." These indicators create the incentive for some NRCS conservationists to set high acreage goals to fulfill their progress reporting requirements. Some conservationists shy away from working with small farms due to the high planning goals they are asked to accomplish and tend to accept large tracts over small tracts. However, an NRCS conservationist stated that it takes just as much time to complete a resource management system plan on a small farm as it does for a large farm.²⁸ Since small and traditionally underserved farmers and ranchers historically own/operate relatively small acreage, the emphasis should be placed on the number of individuals (farms, ranches) receiving assistance as opposed to how many acres were treated.²⁹

Another example of programmatic bias against some small farms is the 5-year requirement for Environmental Quality Incentive Program (EQIP) contracts. For small farmers who lease land, often on a yearly basis, and those who lack the economic security to make long-term commitments, the 5-year requirement prevents them from accessing the conservation benefits of EQIP. A participant at the Sacramento meeting said this about EQIP: "While well intentioned, what this is tending to do is exclude... tenant farmers—two-thirds of our farmers are tenants and the eligibility requirements for becoming part of these programs is a 5-year lease at the minimum. No one's heard of a 5-year lease in California. Two years is typical—some three years."³⁰

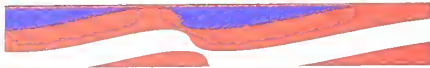
Recommendation 1.32

USDA policies, programs, and regulations should be reviewed to identify program rules and regulations that are either intentionally or unintentionally biased against small farms or that offer potential to be of greater benefit to small farms if programmatic adjustments were made. A review process should be completed within 6 months with a report delivered to the Secretary.

²⁸ Letter received from Patricia Mari, USDA-NRCS, Greenfield, MA, September 4, 1997.

²⁹ Omar Garza, dryland farmer and Starr County, Texas Soil and Water Conservation District Director, public meeting in Albuquerque, NM, September 4, 1997.

³⁰ Daniel Mountjoy, testimony at the public meeting in Sacramento, CA, on September 15, 1997.



- a) **NRCS conservation technical assistance:** The Natural Resources Conservation Service (NRCS) programs should be developed in consideration of the needs of the farms and natural resource concerns, rather than the size of the farm or how far the Federal dollar will go. NRCS should develop a method of employee evaluation that encourages assistance to small farm operators. State and local partners should also be encouraged to develop similar evaluation criteria. Incentives should be offered to encourage small farm operators to develop conservation plans.
- b) **EQIP:** The 5-year contract must be re-evaluated to accommodate small farms, particularly tenant farmers who have less than 5-year leases. Hardship provisions for small farmers and tenant farmers should be addressed, allowing them to deviate from the 5-year contract in certain circumstances. An “exit” or “temporary suspension” provision should be created for small farms if they encounter financial hardship and cannot fulfill their 5-year contract.
- c) **Rural Development’s Intermediary Relending Program, Rural Business Enterprise Grant Program, and Business and Industry Guaranteed Loan Program:** These 3 rural development programs should be reviewed to assess the types of agricultural-based rural development projects funded in recent years. They should be evaluated according to criteria of sustainable rural development. Regulations should be reviewed to determine to what extent they benefit small farms or large farms. For example, a recent regulation change allows for Business and Industry loans to be made for agricultural production “when it is part of an integrated business also involved in the processing of agricultural products.”³¹



³¹ RD Instruction 4279.113 (h).



Projects awarded funding under this regulation should be examined to determine if they limit marketing opportunities for area farmers not involved in the vertically integrated projects.

- d) **Risk Management Agency's Revenue Assurance Program:** The new revenue assurance programs are offered for the major commodities. These programs are likely to favor large farms growing single crops and are not a good fit for small farmers with diversified cropping systems. There is no limit to the amount of coverage a farmer can purchase. This program should be examined to determine how revenue assurance can be made more appropriate to the needs of small farms. (See also Policy Goal 6, *Recommendation 6.11.*)
- e) **Rural Development's Rural Business-Cooperative Service (RBS) programs:** A program review should be conducted to assess the research and technical assistance provided by RBS program staff. Reviewers should examine to what extent the needs of small farm operators are met and whether or not the services provided are balanced between the needs of larger, well-established cooperatives and smaller, new and innovative cooperatives.
- f) **Forest Stewardship Program, Forestry Incentive Program, Stewardship Incentive Program:** Oftentimes forestry programs seem to focus on the large customers at the expense of the small farm and ranch operators and owners of woodlot. The Forest Stewardship program is a good example. This program is designed to provide forestry technical assistance to woodland owners. Small woodland owners are unable to justify financially the expense of purchasing forestry expertise. Larger landowners can more easily afford expertise because of higher volumes and larger anticipated returns. The Commission recommends that the existing Federal technical and financial support programs for forestry be examined for inadvertent discrimination against small woodlot owners. Federal programs should focus on the successes of individual farmers and ranchers, regardless of the size of operation.

Policy Goal 2

Create a Framework of Support and Responsibility for Small Farms



A farmer advocate at the Memphis hearing told the Commission that USDA should “foster and maintain the family farm system with personnel who understand the particular needs of farmers in a certain area.”³² In serving small farm operators, USDA personnel should work in an environment that rewards initiative to deliver programs effectively, to solve problems of small farm operators quickly, and to find answers for them promptly. For instance, if a USDA employee determines through experience that a certain program or regulation is hindering the viability of small farm operators, the employee should be able to freely bring this to the attention of the agency administrator and start a course of action to modify the program. Sometimes efforts to make changes are suppressed or too easily dismissed by saying, “that is the way it has always been and we cannot do anything about it.” The goal should be that small farm operators should be able to identify USDA as a “partner” in making farming decisions that will promote small farm viability and stewardship.

This goal can only be achieved if an organization is structured in a way that allows employees to be focused, creative, accountable, and accessible. USDA leadership should emphasize a cultural change throughout the organization, focusing on the mission clearly understood and practiced by all those in the organization, which is farmer-oriented and customer friendly, emphasizing service through accountable program operation and mindful of the public trust. The Commission believes that USDA’s administrative structure has had an impact on how small farm operators have been and are being served. Programs that help small farm operators are dispersed throughout various agencies, including CSREES, NRCS, FSA, Forest Service, FNS, and AMS. There needs to be more cooperation among the various small farm programs in order to effectively meet all the needs of small farms in a coordinated manner. The Commission believes strong continuity and cooperative efforts in USDA programs serving small farm operators and policies affecting them are crucial to their viability. As one participant at the Memphis hearing said, “They (i.e., small farms) need to be a visible part of USDA’s mission...”³³

Once USDA develops a readily identifiable focus on small farms, the organizations and community-based groups that work with small farms can then begin to develop stronger partnerships with USDA. Partners can be critical to program delivery and can improve their effectiveness in serving small farm operators. A witness in Sacramento said, “I believe that a partnership between USDA and the leadership of some of the private sector organizations can — with the blending of their two resources — develop a platform of technical

³² Testimony of Betty Puckett, farmer advocate, representing the National Family Farm Coalition, Louisiana Interchurch Conference and the National Catholic Rural Life Conference, public meeting in Memphis, TN, July 28, 1997.

³³ Testimony of Teresa Maurer, Appropriate Technology Transfer for Rural Areas, Fayetteville, AR, at public meeting, Memphis, TN, July 28, 1997.



assistance to help the small farmer.”³⁴ This blending is needed to strengthen the framework of support at local, State, and regional levels, and definitely at the national level.

This framework of support is influenced by program regulations, legislation, and appropriations (appropriations are addressed in Policy Goal 7). In this section, the Commission makes recommendations that will change program delivery, with specific programs cited, and suggests legislative changes to influence the delivery of service to small farms.

Small farms as priority

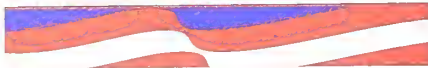
Small farms should be a major focus of USDA. Farms with sales of less than \$250,000 in gross sales comprise 94 percent, or 1.9 million, of all farms in the United States. These farms, on average, earn a negative return on equity. It is these farms that are most in need of public attention to create greater economic opportunities for their long-term viability. At present, USDA does not emphasize the needs of small farms in its strategic plan. References to small farms appear seldom in USDA’s overall strategic plan submitted in fulfillment of the Government Performance and Results Act.

Land-grant institutions also need to make serving small farms a priority. The Commission heard testimony from farmers indicating a lack of attention from their land-grant universities to addressing the real day-to-day problems of how to improve farm profitability on small farms. Some farmers felt like their land-grant institutions are only interested in serving the needs of very large farms. However, the Commission also heard about land-grant programs taking explicit steps to assist small farms. For example, the University of California-Davis Small Farm Program has had success in educating and assisting a diverse group of small farm operators in a State that is increasing its number of small farm operators. A key element in its success is the small farm advisors designated to serve certain counties in the State. The one-on-one advice has worked well, especially in setting up vegetable trials and research and demonstration plots specifically for specialty crops.

Recommendation 2.1

The Secretary should establish an Administrator of Small Farm Programs who would report to the Secretary of Agriculture and have Senior Executive Service status. This Administrator would have the necessary high-level staff as well as support staff to carry out his or her duties, which will include both working with all USDA agencies to ensure that they are meeting the needs of small farmers, and providing formal input on major programmatic and policy decisions by USDA agencies. Further duties include examining the dispersed responsibilities at USDA and developing a plan for coordination to enhance program delivery.

³⁴ Testimony of Drew Brown, principal owner, Ag Sell, diversified consulting and management company, and chair, Minority Agricultural Resource Center, Sacramento, CA, at public meeting, Sacramento, CA, September 15, 1997.



Recommendation 2.2

Each USDA mission area and agency should designate a small farm coordinator to work directly with the Administrator of Small Farm Programs. The person should be a key leader and decision-maker for the represented agency.

Recommendation 2.3

Mission areas and agencies should address small farm concerns in their mission statements as well as their strategic plans. Performance goals for serving small farms must be instilled at all levels of an agency to ensure effective program delivery.

Recommendation 2.4

The Secretary should provide career enhancement incentives and opportunities that encourage high-quality and sustained performance for USDA employees who deliver programs, conduct research and outreach, or otherwise serve small farm operators.

Recommendation 2.5

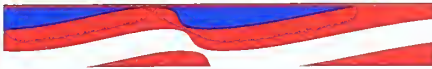
USDA should develop a Department-wide Small Farm and Ranch Policy that encompasses the vision and guiding principles set forth by the Commission. Within that framework, each appropriate agency should develop complementary policy. This policy must be reflected in the development of technical materials used to provide service to small farm operators. Specifically, technical guides and handbooks, such as the NRCS Field Office Technical Guides and the Forest Service Handbook, must reflect circumstances faced on small farms, ranches, or woodlots. Extension publications regarding owning and operating small farms should be updated to reflect current conditions in agriculture.

1890 and 1994 land-grant universities and colleges

The key leaders in serving small farm operators are the 1890 land-grant universities and colleges in the southern region and 1994 land-grant Tribal Colleges serving American Indian and Alaska Native tribes. However, these institutions have been limited in providing services to all small farms in their respective regions due to limited funding. The 1890's have a historical commitment to serving small farms. The focus of these institutions has been to research and develop alternative enterprises and production systems suitable for small-scale agriculture. These institutions are an untapped resource when it comes to developing policies and programs concerning small farms.

Recommendation 2.6

The 1890 and 1994 institutions that serve minority farms should be appropriated significant funds to meet the needs of small farms, including research and outreach. The Secretary should strongly encourage a State match for Federal allocations at 1890 and 1994 institutions. The Secretary should continue to develop research partnerships among USDA, land-grant institutions and private, nonprofit groups to identify, analyze, and propose strategies related to marketing options, such as alternative marketing systems, Community Supported Agriculture, farmers markets, and value-added enterprises.



Recommendation 2.7

The Secretary should fully support passage of legislation that will make the “viability and competitiveness of small and medium-sized dairy, livestock, crop, and other commodity operations” a priority mission area under the “Initiative for Future Agriculture and Food Systems,” as proposed by the Senate in the Agricultural Research, Extension, and Education Reform Act (S. 1150) in the 105th Congress. If passed, 1890 and 1994 institutions with experience in assisting small farm operators should be given priority consideration for conducting this research and extension, in partnership with community-based organizations.

Recommendation 2.8

Successful small farm education models at the 1890 and 1994 institutions, as well as the 1862 institutions, should be utilized to develop need-specific programs in each State.

Community-based organizations and other nonprofits

Community-based organizations and nonprofits that work directly to assist small farm operators in local communities have distinct advantages over government agencies or Extension in reaching small farmers. In some cases, they are better able to identify with the needs of small farm operators and earn their trust in a way that government agencies cannot. At the same time, USDA and Extension possess resources, knowledge, and different levels of credibility that nonprofit organizations lack. Collectively, these institutions have the potential to leverage their strengths in creating a framework to best serve the needs of small farm operators.

Recommendation 2.9

USDA agencies, with leadership from the USDA Office of Outreach, should seek to develop and implement innovative ways to partner with the private and nonprofit sectors. Through improved partnerships, USDA funds could be targeted to community-based organizations to help connect farmers and farmworkers with the technical and organizational information developed by and available from USDA, land-grant institutions, and other agencies. For example, partnerships with community-based organizations and nonprofits, as utilized by the SARE program, should be continued and expanded to other competitive grant programs. The strength of these partnerships should be a critical factor in scoring grant applications.

Recommendation 2.10

The Farm Service Agency can build on its successful partnerships with community-based organizations through the Outreach and Technical Assistance Program for Socially Disadvantaged and Minority Farmers (Sec. 2501 program), by making the DALRS (Debt and Loan Restructuring System) computer software program available to farmer advocate organizations. The organizations could utilize the software in assisting farmers in completing loan applications, in reviewing for accuracy and in expediting the loan application process.



Recommendation 2.11

The Secretary should ensure that small farm operators and nonprofit organizations working with small farmers are significantly represented on all USDA advisory boards and committees, particularly the National Research, Education and Economics Advisory Board.

Recommendation 2.12

The Secretary should issue a policy requiring that Farm Service Agency State Executive Directors, Rural Development State Directors, and State Conservationists in NRCS establish a supplemental advisory team to provide programmatic and implementation advice on issues affecting small farm operators, farmworkers, and traditionally underserved USDA clients. These State advisory committees shall be comprised of three individuals from the target community, and shall be asked to meet as the need arises. These teams should work closely with the newly established State Outreach Councils.

*We've made a lot of noise.
We've done a lot of testifying
as Native American people.
But unless you can make that
local service delivery happen,
then you can have all the
Commission hearings you
want. I'm sorry, that's just the
way it is. It's not happening,
and we're becoming apathetic
about it out in Indian country.*

— Claryca Mandan,
North Dakota

American Indian farmers

Under the 1990 farm bill, American Indian and Alaska Native tribes were guaranteed USDA agency on-reservation assistance. In the past 7 years, USDA has not provided this assistance to the majority of American Indian farmers and ranchers. Traditionally, the American Indian farmers and ranchers have been deprived of on-reservation assistance by most USDA agencies. Lack of this assistance has contributed to the most economically depressed conditions in the country.

Many of the American Indian reservations fall within the boundaries of several county conservation districts and county committees. These county committees do not provide funding for conservation projects on the reservation, thus adding to the degradation of farm and economic status of the American Indian small farm and ranch operators.

Recommendation 2.13

The Commission strongly recommends that the Secretary immediately conduct a USDA agency review for compliance with provisions of the 1990 farm bill to serve Indian reservations.

Recommendation 2.14

Reservations whose geographical area exceeds 100,000 acres should be recognized as service areas and provided directly with NRCS, FSA, and Extension offices in the same manner afforded counties. Less than 90 USDA offices would be required to service over 80 percent of the 54 million acres of Indian reservations under this recommendation, with adequate additional funding to conduct program activity.

Policy Goal 3

Promote, Develop, and Enforce Fair, Competitive, and Open Markets for Small Farms

Testimony presented to the Commission asserts that the single most critical component to the survival of small farms is the price received for the product produced. A fair price and open cash market are essential to:

- secure adequate credit,
- repay debt,
- test new technologies,
- access broad educational sources,
- provide a decent standard of living for the farm family and its employees,
- ensure the production of a safe, edible commodity, and
- foster environmentally sound production.

However, because of increasing levels of market concentration in most commodity markets, a fair price for products at the farmgate has not been forthcoming for some time and must be addressed. At the same time, there has been a rise in the number of farmers marketing directly to consumers. Efforts should be made to enforce fair market competition of existing commodity markets, and at the same time, to develop new competitive markets which more closely link the producer to the consumer, so that the farmer has an opportunity to capture a greater share of the consumer food dollar.

Industrialized Agriculture – Need for Market Enforcement

The first speaker to address the Commission, Dr. Rick Welsh, described the emergence of two food streams shaping the structure of agriculture today.³⁵ Contract production affords food processing firms a means to control quality and minimize risk through control over supplies. There are two main types of contracts: production contracts and marketing contracts. Under production contracts, the contractor owns the livestock or crop and pays the producer a flat fee plus additional payments for performance-based incentives. Typically, the contractor supplies the livestock, seed, feed, supplies, veterinary services, transportation, management services, and sometimes financing, while the farmer supplies the labor, equipment, and facilities. Marketing contracts commit the farmer to sell his or her product to a specified processor or contractor but the farmer owns the product until sold and makes all the managerial and production decisions. Almost one-third of the total value of production on U.S. farms is generated under contractual arrangements, mostly under marketing contracts.³⁶ Most dairy, citrus, and increasingly, grain is produced under marketing contracts. Seed crops, vegetables for processing, poultry, sugar beets, and potatoes are predominantly grown under production contracts, with hog production being the newest commodity to come under contract.³⁷

³⁵ Based on a report, *The Industrial Reorganization of U.S. Agriculture*, written by Welsh for the Henry A. Wallace Institute for Alternative Agriculture, April 1996.

³⁶ *Farmers' Use of Marketing and Production Contracts/AER-747*, Economic Research Service-USDA, p. 6.

³⁷ Welsh, Rick. *Reorganizing U.S. Agriculture – The Rise of Industrial Agriculture and Direct Marketing*. Henry A. Wallace Institute for Alternative Agriculture, Greenbelt, MD. August 1997, p. 23.



Contract production is generally done on a large scale. For example, the size of operations producing hogs under contract are larger than the average hog farm. In poultry, 97 percent of production is supplied by the largest operations with at least 100,000 birds. Welsh asserts that “the interactive effects of a concentrated processing sector and the gradual replacement of open markets with integrated ownership and contract production does not bode well for small farm agriculture.”³⁸

Production under contract can infringe upon the competitiveness of the open cash market, particularly in regional and local markets where contract usage is high. Recent cattle organization newsletters in Nebraska and Texas have urged cattle feeders to sell only to the cash market and avoid locking cattle into captive contracts. The Texas Cattle Feeders Association Market Director, Jim Gill, wrote, “As more and more cattle are ‘tied-up’ in some type of captive supply arrangements, price discovery on the cash market becomes more and more difficult. And when feeders commit cattle to a packer early in the week – and even begin shipping them – before a price is determined, it just relieves any pressure on the packer to purchase cattle on a bid basis.”³⁹ In a letter to the Nebraska Cattlemen Feedlot Council, Geoffrey M. Stolie, its Vice President of Marketing, stated of growing contracts: “This practice has become so widespread that it periodically allows some packers to become no more than hit-and-miss participants in the cash market.... They do not have to aggressively compete for their remaining slaughter needs in the cash market and therefore end up paying less for cash market purchases, as well as the cattle that have already been slaughtered which will be marked at their ‘top price’.”⁴⁰

Proponents of contract production addressed the Commission, asserting the benefits of a guaranteed price and market outlet, and that it has given farmers an opportunity to “remain on the farm.” However, other contract growers, particularly poultry growers, spoke of the imbalance of risk in their contracts, fear of reprisal for attempts at organizing or challenging the contracts, and a general feeling of servitude because of the heavy debt incurred to construct poultry houses.

Competition in the hog, cattle, and lamb industries has been in decline even before the recent rise in livestock contracting. The proportion of the market controlled by the four largest steer and heifer slaughter firms increased from 36 percent in 1980, to 72 percent in 1990, and 82 percent in 1994.⁴¹ Current concentration figures indicate that the four largest firms control 80 percent of the steer and heifer market, with new concentrated movement into the cow and bull markets. Producer testimony at Commission hearings, particularly in Memphis, Albuquerque, and Portland, pointed to increasing pressure to conform to contract markets because of reduced buyer competition in the cash

³⁸ Ibid.

³⁹ Texas Cattle Feeders Association, NewsBriefs, December 5, 1997, Vol. XXX No. 42, p. 1.

⁴⁰ Geoffrey M. Stolie, Vice President Marketing, Nebraska Cattlemen, *Letter to Nebraska Cattlemen Feedlot Council Members*, November 24, 1997, p. 1.

⁴¹ *Concentration in the Red Meat Packing Industry*, February 1996, USDA-GIPSA report, p. iii.



We're told daily that supply and demand are the market forces that provide for market price, but when we examine the real world with the theory of perfect competition, we have to have perfect knowledge, unperishable products, and a large enough number of market participants, and [assurance] that no single participant could influence the market. Well, that's not the case in the food chain today.

– Bill Brey, Wisconsin

market. Significant and prolonged downward price pressure was also a concern, with testimony in Sacramento pointing directly to the widening gap between the producer and consumer retail price.⁴² The producer's share of the retail beef dollar dropped from 64 percent in 1979 to 49 percent in 1997.⁴³

Equally significant is the dramatic decline in the domestic sheep industry. Sheep production in the 1940's reached over 52 million head. Today, however, production numbers show less than 8.4 million head, with imports taking up an increasingly larger share of the domestic market.⁴⁴ Market concentration is also pronounced in the sheep sector, with the share of the market controlled by the four largest sheep slaughtering firms rising from 51 percent in 1985 to 73 percent in 1996.⁴⁵ If market concentration offers greater market efficiencies and greater access to world markets, as many analysts have claimed, U.S. sheep producers would be hard-pressed to quantify the benefits.⁴⁶

Direct Marketing and Adding Value – Opportunities for Market Development

The second food stream described by Welsh is referred to as the "direct marketing stream." Direct marketing efforts have increased significantly in recent years, most notably in the form of farmers markets. The USDA National Farmers Market Directory, 1994 edition, listed 1,755 markets; the 1996 edition listed more than 2,400. According to the 1992 Census of Agriculture, direct sales of agricultural products totaled over \$400 million. Although this market stream delivers a relatively small portion of the overall food supply, it does provide greater opportunities for small farms to earn a greater share of the consumer food dollar and maintain a diverse farming structure.

In contrast to the industrialized stream, "the direct marketing stream is characterized by direct contact between producer and consumer, smaller-scale production operations, and a highly decentralized structure.... Direct marketing is based on the concept that farmers and ranchers control the products of their operations — from cultivation and weaning to final sale."⁴⁷ Direct markets are often specialty markets, appropriate for small farmers who have the capacity to move smaller amounts of product that are often higher in value.

Small farmers can also pursue marketing strategies that promote their "smallness" as an attribute. An increasing number of products, particularly in natural food stores, such as Whole Foods Market, are marketed with labels identifying the farm family who raised the product, the location of the farm, and the stewardship efforts taken to grow or raise the product. An identifiable segment

⁴² Testimony of Al Medvitz, farmer, Rio Vista, CA at public meeting in Sacramento, CA, September 15, 1997.

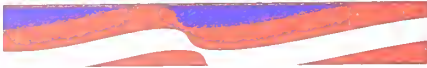
⁴³ Red Meat Yearbook. USDA Economic Research Service, 1997.

⁴⁴ Sheeps and Goats Report. NASS Report, Jan. 1996.

⁴⁵ GIPSA, *Packers and Stockyards Statistical Report, 1995 Reporting Year*, SR-97-1, September, 1997, p. 49.

⁴⁶ Testimony of Al Medvitz, farmer, Rio Vista, CA at public meeting in Sacramento, CA, September 15, 1997.

⁴⁷ Welsh, Rick, *Reorganizing U.S. Agriculture: The Rise of Industrial Agriculture and Direct Marketing*, Henry A. Wallace Institute for Alternative Agriculture, Greenbelt, MD, August, 1997, p. iv.

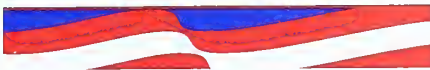


of the consumer market is attracted to products that represent a certain set of social and environmental values not as easily identifiable in the industrialized food stream. When farmers and consumers communicate face-to-face, through farmers markets, Community Supported Agriculture, or direct marketing to restaurants, a unique farmer-consumer relationship can develop, giving the small farmer a competitive advantage and giving consumers assurance that their food purchases are returning value to the farmer, the environment, and their community.

Small farmers can also benefit from greater economies of scale and market influence by joining with other farmers to form cooperatives for marketing and adding value to raw commodities. The Commission heard numerous stories of successful and fledgling cooperative efforts emerging throughout the country. There is a growing interest in cooperatives as a means to improve farm income, and with that, a growing need for greater knowledge of cooperatives and the business and marketing skills necessary to succeed. Securing capital for start-up of farmer-owned cooperatives can be a challenge. However, the Commission also heard testimony from dairy farmers who feel that some of their farmer-owned cooperatives are not acting in the best interests of the farmer-members.

Value-added cooperatives do provide a potential means for farmers to capture a greater share of the value of their product, keeping more dollars in their local and regional economies instead of exporting raw commodities (and dollars) away from rural communities. However, care must be taken to structure value-added cooperatives in a way that truly benefits the farmers within the regional farm economy. For example, ValAdCo, a Minnesota cooperative formed by corn producers, established an 8,750-sow farrowing operation with 50 employees. In this case, the value-added cooperative set up direct competition with owner-operator hog farmers by shifting production into an industrial operation operated by wage laborers.⁴⁸ Cooperatives, or any value-added operation, must be structured in ways that allow farmers to capture the greatest share of the benefits and that support opportunities for greater market competition rather than more concentration.

⁴⁸ Center for Rural Affairs Newsletter, June 1996, p. 4.



The following recommendations of the Commission fall into two categories: market enforcement and market development. Government action to enforce competition in the marketplace is critical in the face of increasing concentration and anti-competitive behavior. At the same time, publicly supported efforts to develop and support new marketing strategies are needed to enable small farmers to capture a greater share of the value of their production.

Market Enforcement

While USDA has begun to address the concerns and recommendations put forth by the USDA Advisory Committee on Agricultural Concentration in June of 1996, the Commission feels strongly about the need to give additional emphasis to the issues of market competition enforcement. Market concentration is one of the strongest forces affecting the viability of small farms. Competitive, fair, and open markets are fundamental to the economic survival of small farms. USDA must play an aggressive role in government oversight and enforcement of market competition.

*You have the Packers and
Stockyards Act of 1921.
You don't need any new laws.
You just need to enforce
the one that you've got.*

— Coy Cowart, Oregon

Packers and Stockyards Act enforcement

While market concentration has increased dramatically in the last 15 years, regulatory pressure from USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) has failed to develop sufficient economic and legal expertise to keep pace with the emerging issues. GIPSA has been traditionally and competently geared toward the regulation of day-to-day livestock transactions, focusing on fraud, prompt payment, and fair buyer practices.⁴⁹ Market concentration occurred more rapidly than GIPSA's ability to adjust and address competitive concerns. Only within the last 2 years have there been significant actions to rectify the shortfall.

Key to GIPSA's ability to enforce the Packers and Stockyards Act is proof that there is a violation of the law. To do so, GIPSA must have skilled econometricians and lawyers trained specifically for this highly complex area of law enforcement. Because market access and fair competition are key to the access of our market structure, it is vital that agencies with statutory responsibilities, like GIPSA, be fully staffed, funded, and aggressively supported by the Administration and Congress.

Enforcement of the Packers and Stockyards Act is essential to a healthy market structure for livestock. The Commission agrees with many of the observations in the Inspector General's Evaluation Report in February of 1997. GIPSA needs more economic, statistical, and legal resources to analyze and formulate conclusions about the numerous complex, anti-competitive practices that have arisen in the livestock and meatpacking industries. USDA should

⁴⁹ *Evaluation Report*, USDA Office of Inspector General, No. 30801-001-Ch. February 1997.

immediately implement the reorganization of GIPSA's Packers and Stockyards Programs, by increasing staff and reforming operations to carry out its mandate to enforce the Packers and Stockyards Act.



Recommendation 3.1

The Commission urges USDA to implement the following options presented in the Inspector General's report:

- a) Integrate fully the economics staff into the investigations of anti-competitive practices.
- b) Assess staff qualifications and obtain additional staff with economic, statistical, and legal backgrounds to work on investigations of anti-competitive practices.
- c) Use USDA's other economic resources, such as the Economic Research Service, to assist with research activities.
- d) GIPSA should assemble its own staff with legal backgrounds to assist in the development of evidence for investigations.



Recommendation 3.2

The Commission opposes any legislative action to transfer USDA's responsibilities for investigations of anti-competitive practice to another Federal agency, such as the U.S. Department of Justice.⁵⁰ It is vital to keep areas of critical regulatory concern within the purview of the USDA where there is a staff that is knowledgeable about the agriculture sector.



Recommendation 3.3

The Secretary of Agriculture should continue to request increased funding through the President's budget for GIPSA to complete its reorganization and to enable sufficient and able staffing resources necessary to conduct investigations into anti-competitive behavior in the livestock industry, including poultry. An additional \$1.6 million and 20 staff years for increased economic, statistical, and legal expertise to pursue investigations of packer competition and industry structure issues is reasonable and prudent. An additional \$750,000 of funding is needed for investigation and enforcement activities in the poultry sector. The Secretary should periodically monitor progress of the development of this new focus of GIPSA to ensure resources are adequate to carry out its mandated function. It should be recognized that this increase in the budget is only sufficient to establish an initial program. As staff become better trained and more experienced, budget increases will be required to fully exercise regulatory authority. A long-term program for GIPSA concerning market concentration must be developed to ensure proper and effective growth of the program.



Recommendation 3.4

The Grain Inspection, Packers and Stockyards Administration should establish and publicize a toll-free number so producers can report evidence of market abuses. The primary criticism often heard from anti-trust enforcement officials is the lack of evidence for prosecution. A toll-free number would provide

⁵⁰ Ibid. p. iii.

producers with an accessible and centralized source for registering complaints. The toll-free number could be a voicemail system whereby callers could confidentially record their complaints. They could also leave their names and addresses to request a complaint form to document the complaint with the type of evidence needed by GIPSA to determine the validity of the reported problem.

Recommendation 3.5

The Secretary should ask Congress to pass legislation clarifying the authority of GIPSA to prohibit discriminatory pricing on the basis of volume. The legislation should reaffirm that GIPSA is authorized to take action against undue preferential pricing by packers that damages smaller producers not receiving the preference, irrespective of whether there exists the intent or the effect of reducing competition among packers. The legislation should clarify that the existence of undue preference cannot be disproven by the mere presence of a business reason on the part of the packer for offering the preference and that preferences offered selectively without basis in product value or acquisition costs shall be considered undue preferences. Until such legislation is passed, GIPSA should argue this same position vigorously in the courts. The Commission commends the Secretary for the GIPSA investigation of hog procurement in Iowa and southern Minnesota. We urge the Secretary to release all findings to the public and to move aggressively against any discriminatory practices uncovered.

Contract production

The poultry industry is perhaps the most industrialized subsector of agriculture, with 89 percent of poultry farms using contracts and about 86 percent of the total value of poultry production grown under contract.⁵¹ Testimony presented to the Commission included the results of a 1995 survey of poultry contract growers conducted by Louisiana Tech researchers describing the average poultry grower. The average poultry grower is 48 years old, owns 103 acres of land, 3 poultry houses and raises about 240,000 birds under contract annually. The grower has been contract-growing birds for 15 years and owes over half of the value of the farm to the bank. The contract poultry grower's gross annual income is about \$66,000 and the grower's profit, before paying themselves for their labor, is about \$12,000.⁵² Raising poultry on contract may appear to be a way of reducing price and income risk. However, it provides a modest living at best and, under current contract practices, is far from risk-free. Poultry contracting requires the grower to provide the land, buildings, fuel, and labor while the contractor provides the livestock, feed, medicine, and veterinary services. Contract growers assume a disproportionate share of the risk by owning the fixed production assets – often debt-financed – and being liable for environmental costs and responsible for dead bird removal. Several lawsuits have been filed – and won – based on unfair contract practices. These include early contract termination before the building loans were paid off, company requirements for building improvements at the grower's expense,

⁵¹ Farmers' Use of Marketing and Production Contracts/AER-747. Economic Research Service, p. 6.

⁵² Testimony of Carol Morrison of Pocomoke, Maryland and member of the National Contract Poultry Growers Association. Presented at the Washington, DC, public meeting, September 10, 1997.

underweighing of birds and feed, manipulation of quality and quantity of feed and birds, and retaliation against growers for attempting to organize grower associations.⁵³ The Commission endorses legislative changes to strengthen the Agricultural Fair Practices Act (AFPA) and the Packers and Stockyards Act to enforce equitable and balanced practices for contract livestock growers.



Recommendation 3.6

Congress should amend the AFPA to provide USDA with administrative enforcement and civil penalty authority that will, in turn, enable growers to organize associations and bargain collectively without fear of discrimination or reprisal. This will shift authority from the Department of Justice to USDA, thereby providing more focused and timely enforcement of violations.



Recommendation 3.7

USDA should pursue legislative changes to amend the Packers and Stockyards Act to include poultry processors under the same administrative enforcement authority for violations to Section 202 used to enforce fair market competition for other meat packers. This change would shift jurisdiction for poultry processor violations from the Department of Justice to USDA, thereby enabling more uniform and efficient enforcement against unfair treatment of contract growers.



Recommendation 3.8

The Secretary should consider and evaluate the need for Federal legislation to provide uniform contract regulations for all growers who are, or wish to be, engaged in agricultural production contracts. The evaluation should include a review of existing State laws on agricultural production contracts, particularly in Minnesota, Wisconsin, and Kansas. It should also include a review of legislation proposed in Louisiana, Alabama, Oklahoma, Iowa, Florida, and North Dakota as models for what might be appropriate in a national law.

The elements that should be considered for inclusion in a Federal law covering agricultural production contracts should include, but not be limited to, the following:

- a) accreditation of producer associations
- b) promise of good faith by both parties
- c) mediation, arbitration, or alternative dispute resolution
- d) administration and enforcement of the law, including judicial review, civil remedies, and investigative powers by USDA
- e) conditions for and notice of termination
- f) notice and guidelines to renegotiate contract terms
- g) recapture of producer investments for contract termination
- h) a producer's lien

⁵³ Hamilton, Neil D. A Farmers' Legal Guide to Production Contracts. *Farm Journal*, January 1995, p. 124-125.

- i) reimbursement for the costs of disposal of dead birds
- j) parent company liability for contractors
- k) duration of contract
- l) payment terms, including prompt payment and accurate settlement sheets
- m) formulas used to convert condemnations to live weight
- n) per unit charges for feed and other inputs
- o) factors to be used in ranking growers and determining performance payments
- p) prohibition against discriminatory practices, such as undue preference, coercion against joining an organization, issuing false reports and including employees of the company in the ranking system
- q) an express private right of action
- r) contractor responsibility for environmental damages
- s) grower's right to refuse livestock when delivered if livestock are in less than normal conditions
- t) capital construction requirements.

Marketing fresh produce

Producers of perishables – fruits and vegetables – particularly small-scale producers, typically market their products through brokers, packer-shippers, and commission merchants. Producers often have no knowledge as to the prices or returns they will receive for their produce until well after delivery is made to these entities. At some point an accounting is made to them, detailing expenses of the sale, as well as prices and net returns. Many charge that unethical and illegal practices in the sale of their produce are common. These producers often end up owing money to handlers after the sale of their produce. They further assert that government agencies charged with market enforcement duties are either unwilling or unable to effectively police the produce marketing system. Producers allege that handlers often sell produce to companies that, for various reasons, pay less than market price for the produce. This increases handlers' profitability while decreasing that of the growers.



Recommendation 3.9

The Commission recommends that USDA, working with State departments of agriculture, reinvigorate the role of market enforcement in protecting the integrity of agricultural markets. The involvement of law enforcement agencies may expedite the effectiveness of market enforcement activity. Hence, local District Attorneys need to be informed and educated as to the significance of ethical and legal marketing practices to the welfare of family farmers. A full-



scale investigation should be made of the process in which brokers and handlers accept and pool consigned produce. Commission merchants and handlers should be held responsible for their actions. Improper handling of perishable fruits and vegetables should be the responsibility of these merchants and not of the farmer. These investigations should be regarded as serious offenses if there is proof of fraud or manipulation of pricing. The USDA should strengthen the Perishable Agricultural Commodities Act (PACA) program's ability to act swiftly, leaving no time for coverup at the merchant level. In cases of fraud, USDA should prosecute to the full extent of the law.

Captive supplies

Over the last few years, livestock meat packers have begun a practice called "captive supplies" as a means to secure livestock for their slaughtering operations. This practice is born out either through direct ownership of livestock by the packers themselves or through forward contracting with livestock producers. The Commission heard testimony from cattle producers concerned with the effect of captive supplies on reducing the volume of livestock for sale on the cash market. When packers own the livestock they slaughter, it is in the packer's interest to slaughter their own livestock when prices are relatively high on the cash market, effectively dampening the competition in the cash market. USDA published a petition for rule making for public comment in early 1997 restricting the use of forward contracts and packer ownership of livestock for slaughter. More than 1,700 comments were received by the April 97 deadline, and USDA is in the process of reviewing the comments.

Recommendation 3.10

The Commission endorses the petition to:

- a) Prohibit packers from procuring cattle for slaughter through the use of a forward contract, unless the contract contains a firm base price that can be equated to a fixed dollar amount on the day the contract is signed, and the forward contract is offered or bid in an open and public manner.
- b) Prohibit packers from owning and feeding cattle, unless the cattle are sold for slaughter in an open public market.

In addition, USDA should hasten its review of the petition comments and make a final decision no later than April 30, 1998.

Mandatory price reporting

Another practice employed by meat packers that damages competition in the marketplace is nonreporting of certain transactions. This occurs when packers pay above-market prices with an explicit condition that the price not be disclosed. Consequently, the market price upon which all other purchases were based, particularly formula cattle trades, were artificially low. All sellers not privy to this special deal suffer.



Recommendation 3.11

There has to be something done in Congress soon to get at least a 13.50 price for dairy farmers. There's not a one that's cash-flowing out there. We cannot survive on this.

– Sharie Lien, Minnesota

Price reporting for all packer livestock transactions should be mandatory. The information reported should include contract or formula pricing premiums and discounts. Accurate and verifiable data, particularly on all captive supplies, should be made public to enable fair, open, and competitive markets. Both parties to the transaction should be responsible for price reporting.

Dairy prices

The Commission heard testimony from many dairy farmers who were suffering from low prices and many who were going out of business as a result. Many spoke of personal and emotional stress and a farmer reported on farmers he knew who had committed suicide due to their inability to make ends meet for their families. The current crisis in the dairy industry can be attributed to the lowering of the Federal milk price support in recent farm bills, 3 years of historically low non-fed beef prices, unusually high, disaster-driven feed prices, and low and volatile farmgate prices.

USDA's efforts taken to date – cheese purchases for the nutrition assistance and school lunch program, initiation of the National Agricultural Statistics Service (NASS) national survey of Cheddar cheese prices, and increased use of Dairy Export Incentive Program sales — are welcome and have made some difference. However, continued vigilance, leadership, and exploration by any means available to the Secretary of Agriculture are needed to bring relief to the Nation's dairy producers.

In 1981, dairy farmers were receiving a national average of \$13.76/cwt. In August of 1997, dairy farmers were receiving a national average of \$12.70/cwt. and retail prices were at \$2.76/gallon, about 90 cents higher than the retail price in 1981. While farm prices dropped by \$1, the price paid by consumers has not.

Some evidence suggests that dairy products in some retail stores are the most profitable products, and are often used to cover losses on other retail products. Using the measure of Direct Product Profit (DPP – profit on the basis of gross margin, after subtracting direct costs associated with selling the item), Cornell University researchers McLaughlan and Russo found that, in 1990, the dairy department produced the highest profit-to-space ratio in the supermarket. The dairy department generated \$11.19 per square foot of facings per week, more than twice as much as the next most profitable department, frozen foods, which requires considerably more processing, transportation, and packaging costs than milk and milk products. The same study found profitability on fluid milk was \$16.48 per square foot. As a result of the skewed store margins, the New York legislature passed a “price gouging law” which states that the retail price of milk cannot be more than double the Class 1 milk price, plus premiums paid and the cost of transportation.



Recommendation 3.12

The Economic Research Service (ERS) and the USDA Chief Economist should investigate the processing and retailing segments of the dairy industry to determine if excessive profits are being made at the expense of farmers and consumers, by researching the competitive structure of dairy product pricing within retail stores. The study should also examine the profitability of retail dairy pricing in relation to other retail product pricing within a store. Is the dairy case making more profit per square foot relative to other products? The study's findings should be made public.

Recommendation 3.13

The Secretary of Agriculture should ask the Department of Justice to investigate anti-competitive behavior of the dairy industry within the processing and retail segments.

Recommendation 3.14

In order to provide some measure of recovery for dairy producers, the Secretary should work with dairy leaders to press Congress for immediate changes in dairy policy to provide a transition for dairy producers commensurate with the crop commodity transition payments authorized by the 1996 FAIR Act, including the floor price resolution, the Dairy Cow Pay-Up program, or other options.

Whatever we do or do not do in relationship to our structure of food production will illustrate the type of nation we are about to become — a nation that concentrates the wealth and resources in the hands of fewer and fewer people, or whether we are still a nation that believes that many people were intended to share in the great abundance and wealth God blessed this country with.

— Gary Lamb, Iowa.

Economic concentration

While agricultural markets are becoming increasingly concentrated, the rest of the U.S. economic structure is also concentrating and infringing upon the basic tenets of capitalistic markets. As many producers have only one or two buyers for their commodities in their region, they are also facing growing problems in accessing private credit sources, and with recent mergers in railroads, many farmers cannot move their grain in a timely or efficient manner. Not only is this a concern for producers, but for consumers as well, as they face less choice and higher prices for the food they buy. University of Missouri professor, Dr. William Heffernan says, "The food sector of the economy is second only to the pharmaceutical sector in terms of return on investment. But the economic benefits are not shared equally by all portions of the food sector."⁵⁴

With concentration, not only are increasing price spreads a concern, but overall impacts to the social and community structures are increasingly negative. Heffernan points out, "Environmentalists are concerned about the ecological implications as they watch firms circumvent government regulations in one country by moving parts of their operation out of one country and into another. Consumers are concerned about issues of food quality, food safety and especially about the food security issue, or sustainability as it is sometimes called. There are animal welfare issues, rural development issues, labor issues and ethical issues to be raised."⁵⁵

⁵⁴ Heffernan, William D. Agricultural Profits: Who Gets Them and Who Will in the Future?" Gulf Coast Cattleman. Volume 68, Number 2, April 1997, p. 11.

⁵⁵ Ibid.

These changes imply a need for greater coordination and attention to the agricultural industry by more agencies than USDA. EPA is responsible for enforcement of environmental protection. The Department of Labor has jurisdiction over employment and worker safety laws, including farmworkers and wage-laborers involved in agricultural industries. The Department of Justice is responsible for upholding anti-trust laws and maintaining market competition in the food industry.



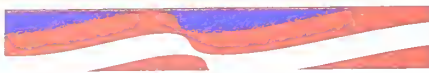
Recommendation 3.15

The Commission recommends that President Clinton establish a Presidential Commission on Market Concentration. This commission should include members of the relevant Cabinet-level agencies, with the Secretary of Agriculture taking leadership for the commission. The commission should include the Secretaries and Administrators of: Environmental Protection Agency; Departments of Labor, Justice, Interior, Health and Human Services, Housing and Urban Development, Commerce, Transportation; Small Business Administration; and the U.S. Trade Representative. The commission should examine the emerging concentration resulting in monopsonies and oligopsonies in all sectors of the economy and its effect on market competition, the environment, worker protection and safety, rural housing, quality of jobs and wages, transportation, banking, international trade, and socio-political structure. The purpose of the commission will be to assess the ability of the Federal Government to respond to the impacts of concentration. The commission should propose legislative and administrative changes accordingly and deliver a Plan of Action to the President within 1 year of initiation.

Market Development

At the same time that USDA pursues increased efforts to mitigate market concentration and ensure greater competition, USDA should also pursue the development of new markets to create more marketing options for small farmers and more opportunities to capture greater value for their production. USDA has a wealth of rural development business loan, grant, and technical assistance programs that could be channeled to facilitate “agricultural development.”

“Agricultural development” refers to the recognition that farming, where it is a significant aspect of rural communities, is an asset for rural economic development. Rather than consider farming as an unprofitable “liability” that should be diffused through diversification strategies to attract other industries, rural development officials and practitioners should reconsider value-added processing and innovative marketing opportunities to breathe new life – and – profit into their farming sectors as an agricultural development strategy.



Value-added agriculture

Much of the testimony received by the Commission spoke to the desire for greater technical and financial assistance for small farmers to get involved in value-added processing and marketing as a means to improve farm income. However, “value-added” processing and marketing can take many different forms, some offering greater potential to truly benefit farmers while other forms might be little more than a guise for industrializing agriculture using wage laborers and furthering the demise of local competitive market outlets.

Recommendation 3.16

USDA’s Rural Business – Cooperative Service (RBS) financial and technical assistance programs should give priority to assisting the development of cooperatives that will primarily benefit small farm operators. Such cooperatives should be organized to ensure that a large share of their throughput originate from small farms. The financial and technical assistance programs provided by RBS should support value-added efforts where value-added strategies meet the following criteria:

- a) the profit from the value-added business operation flows to and within the community;
- b) wage-laborers are paid a living wage;
- c) the value-added initiative results in more local and regional competition in the cash market, not less;
- d) value-added initiatives should create incentives for resource stewardship and reward sustainable production systems. For example, processing of food-grade oats would provide a market incentive for including oats in a corn-soybean rotation. Another example is natural beef raised using intensive rotational grazing methods that maintains marginal land in pasture instead of row crops.
- e) Value-added initiatives should pursue specialty and differentiated products where small farms and small food processing firms will have a competitive advantage over larger firms. The research conducted according to *Recommendation 1.1*, Policy Goal 1 should be used to inform the financial and technical assistance priorities of RBS.

When defining “value-added,” the following concepts should be included:

- f) value-added includes direct marketing, by individual farmers or a network of farmers allocating the marketing tasks among the network to achieve economies of scale and share responsibility;
- g) the addition of value must result through application of farmers’ own time, management, skills, and production resources to produce products with less capital expenditures and purchased inputs or to produce products of higher intrinsic value (identity-preserved grains, organic grains, free-range chickens, natural beef, food-grade corn) for which buyers are willing to pay more.



Agriculture-based rural development

USDA Rural Business-Cooperative Service has taken increased steps to give attention to the opportunities for farm-based business development, primarily through value-added processing and marketing. For example, the Business and Industry Guaranteed Loan program regulations were changed recently to allow guaranteed loans for agriculture production if it is part of an integrated business also involved in the processing of agricultural production. The agricultural production portion of the loan cannot exceed 50 percent or \$1 million, whichever is less.⁵⁶ This change enables farmers and those not eligible for credit under FSA loan programs (non “family farms” as defined by FSA regulations) to obtain credit for agricultural value-added processing businesses. In addition, there is no “test for credit” like that used for FSA credit eligibility, making the B&I Loan Guarantee program available for non-farming corporations to vertically integrate into crop and livestock production.

The 1996 FAIR Act instituted another recent change allowing “family-sized farmers” to assume B&I guaranteed loans to finance start-up capital stock in value-added processing cooperatives. RBS is in the process of changing the B&I regulations to reflect this change, in particular to define what is meant by “value-added.”

RBS also administers a B&I Direct Loan Program that had gone unfunded until FY 1996 appropriations included \$50 million. The program is not well-known among rural development practitioners and others who could benefit from it. RBS should revise the B&I loan program regulations to give priority to projects that will primarily benefit small farms. B&I direct and guaranteed loans should be used to finance the development of new marketing infrastructure, including locally owned, value-added processing and marketing opportunities.

Recommendation 3.17

Eliminate B&I regulation 4279-113 (h) because it allows non-farming corporations to become direct competitors with farmers in agricultural production.

Recommendation 3.18

The use of B&I loan guarantees to finance start-up capital in stock should be targeted to give priority to small farmers, including those who are minority, women, and beginning farmers. The types of loans authorized should be consistent with the criteria for value-added listed in *Recommendation 3.16*.

Recommendation 3.19

The B&I Direct Loan Program should be targeted to the development of agricultural-related businesses for the purpose of creating new marketing avenues for small farmers. The “Community Priority” should include “agriculturally dependent”⁵⁷ communities and locations with the greatest concentrations of small farms. Outreach should be conducted to increase awareness of

⁵⁶ Rural Development Instruction 4279-B, 4279.113 (h). Previously, agricultural production was prohibited from B & I loans because they are available through FSA.

⁵⁷ “Agriculturally dependent” refers to counties with 20 percent or more of their earnings coming from production agriculture.



the program's availability. Outreach activities could include local seminars, sponsored by both economic development agencies such as local chambers of commerce, city, and county governments, and farm organizations, to describe the types of assistance available for agricultural development. RBS could also partner with the Council of State Development Agencies and participate in the National Association of Development Organization's annual training conferences.

Recommendation 3.20

The Forest Service should continue to support research and technology transfer efforts of value-added agroforestry products, such as pine straw for landscaping, boughs for holiday decorations, manufacture of biofuels, production of wood chips for home weed control, and cedar oil.

Agriculture-based development by rural electric cooperatives

Rural electric cooperatives have the ability to be a force for rural development in the customer communities by providing loans and grants using funds from their cushion-of-credit account. Some rural electric co-ops, such as in North Dakota, are exercising this authority by assisting with the feasibility studies and start-up of "new generation" cooperatives. Some States do very little to take advantage of this resource as a means of supporting local economic development efforts for their electric customer-borrowers. While loan funds were utilized in their entirety in FY 1997, grant funds were underutilized.

Recommendation 3.21

USDA Rural Development State Directors should conduct outreach to State Rural Electric Cooperative Associations to leverage the available loan and grant funds for agricultural development projects that will create local, value-added agricultural businesses for the products of small farms. The National Rural Electric Cooperative Association should take steps to identify model programs throughout its member cooperatives and promote the best ideas for creating greater economic opportunities for small farm electric customers.

We have to provide an opportunity for vertically integrated companies to be owned by the folks at the bottom, and not just the folks at the top.

— Dave Carter, Colorado

Cooperative development

With the demise of many local and regional central markets due to the increase in vertical coordination and integration, there is a growing need and interest in cooperation among producers through alliances, networks, or formally organized cooperative business organizations. Under the Capper-Volstead Act of 1922, farmers are granted limited antitrust exemption for marketing raw and processed products through their cooperatively owned businesses. Cooperatives are a marketing tool through which producers can build market power on their behalf. To counter recent trends that concentrate production in the operations of the large producers, the members, promoters, and regulators of cooperatives will need to take deliberate steps to refocus the thrust of the cooperative movement toward helping small and disadvantaged farmers.

The recent growth in “new generation” cooperatives has typically focused on matching supplies to effective demand in niche markets through use of delivery rights and upfront investment in the joint value-added activity. A critical need of smaller cooperatives is to overcome weaknesses of fragmented marketing through coordination using marketing agencies-in-common or federations.

New start-up co-ops need professional assistance when they are least able to pay for it. Access to sound financial, legal, and marketing support is key. Seed money for feasibility analysis is needed for small producers to have the ability to assess the marketplace, and to identify an area that offers the greatest potential for the least risk. They also need the capacity to conduct the research and development to bring a new product to market. For a small start-up project, one stumble is fatal. And, the regulatory system and land-grant research structure must be attuned to the needs of these new ventures.



Recommendation 3.22

USDA’s Cooperative Services programs should give priority for cooperative development to benefit small farm operators, including women,⁵⁸ minority, and beginning farmers. Public sources of technical assistance, research, education/information about cooperatively owned businesses need to be strengthened and targeted to reflect the needs of small, women, minority, and beginning farmers. Research should be conducted to identify the best strategies and most successful cooperative models for small farmers. Efforts should be taken to expose and train USDA’s Cooperative Services program staff to understand the unique strengths and liabilities of small farms in order to better serve their needs. Publications should be specifically tailored to provide information about cooperative opportunities for small farmers.



Recommendation 3.23

Teaching, research, and extension at 1862 and 1890 land-grant universities, as well as secondary schools with vocational agriculture programs, should consider including curriculum and courses on cooperative marketing where it does not currently exist. Educational programs through public television or using distance learning technology should be developed for farmer audiences.



Recommendation 3.24

USDA’s Cooperative Services program staff should actively promote the availability of USDA funding sources, such as the Federal-State Marketing Improvement Program (FSMIP), RBEG, B&I, and grants through rural electric cooperatives, to finance co-op feasibility studies and provide assistance in the application process.



Recommendation 3.25

Land-grant universities with food technology and processing research and development programs should make greater efforts to avail themselves of small, minority, women, and beginning farmers interested in developing value-added products appropriate to their size and scale.

⁵⁸ This refers to women who are the primary farm operator within a household; it does not refer to women in a household where the man is the primary farm operator.



Local and regional food economy

The global food economy, where capital and technology are mobile and can be transferred to those parts of the world with the lowest labor costs and least governmentally regulated environmental and health protections, is a playing field upon which small farms are left out of the game. "The food system now resembles an hourglass with many producers and millions of consumers but, with only a few firms controlling the processing, these firms are in a position to control the food industry.... The food sector of the U.S. economy is second only to the pharmaceutical sector in terms of return on investment (20 percent)...The food system is a profitable industry, but farm families get little of the profit in the highly concentrated food system...."⁵⁹

Amidst the dominant talk of a "global economy" are voices articulating the hope of a "local or regional food economy" where small farmers play a central role. In a local or regional food economy, small farmers produce for community food and fiber needs and sell their products through alternative marketing channels. The strength of a local food economy is the relationships between farmers and community citizens. Through this relationship, small farmers provide fresh, in-season food appreciated and purchased by community citizens. The relationship creates an opportunity for mutual trust and support, contributing to the betterment of the community as a whole.

The alternative marketing channels are based on face-to-face relationships. These models currently in use, and increasing in use, are: farmers markets, Community Supported Agriculture, Church Supported Agriculture, on-farm marketing, subscription farming, roadside stands, home delivery routes, and farm-to-chef direct marketing. For some small farmers, these models offer an opportunity to supply local markets with fresh foods and maintain an economically viable small farm operation.

⁵⁹ Heffernan, William D. "Globalization of the Food System: An Overview of the Current Trends." *Justice in the Global Food System: A Faith Perspective on Food Security*, p. 25, 28.

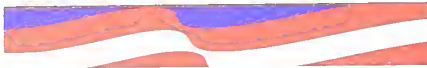
A local food economy can also address the problems of food insecurity in our urban and rural communities among those with lower incomes. Defined as “access by all persons at all times to a nutritionally adequate and culturally acceptable diet through local non-emergency channels,” the concept of “community food security” includes an important role for small farms as suppliers of fresh, nutritious produce for low-income people in local rural and urban areas. Community food security involves the development of linkages between small farmers and the nutrition needs of low-income people.

Local or regional food systems also offer the potential for place-based identification of food products from farms that provide intrinsic value beyond food production alone. For example, farmers in upstate New York have entered into a unique relationship with New York City to implement whole farm planning conservation methods to protect the watershed that supplies New York City’s drinking water. At its public meeting in Albany, NY, the Commission heard of current efforts to market upstate farm products (veal, milk, vegetables) to upscale restaurants in New York City, identifying the source of the farm products on the menu and making the connection for customers to the city’s water quality.

**Recommendation 3.26**

USDA should develop an interagency initiative to promote and foster local and regional food systems for the benefit of small farms, rural community citizens, and low-income people in rural and urban areas. This initiative will require a focused and coordinated approach among relevant agencies, through an interagency team including staff from the Food and Nutrition Service, Cooperative State Research, Education, and Extension Service, Agricultural Marketing Service, Farm Service Agency, and Natural Resources Conservation Service. The team would address the following components:

- a) USDA should encourage the use of the Federal-State Marketing Improvement Program (FSMIP) for developing direct marketing strategies and initiatives that primarily benefit small farms. State departments of agriculture, the primary eligible entity for FSMIP grants, should seek to partner with community-based organizations interested in pursuing local or regional food system strategies. FSMIP grants could be used to conduct feasibility studies to establish regional identity of high-quality products produced locally by small, family farmers or “eco-labels” to describe stewardship practices used in the production of the product and benefits to the environment. Efforts should be made to target funding to address the needs of beginning, minority, and women farmers.
- b) The interagency team should examine the barriers and opportunities for farmers to label their products as a means to differentiate their products so long as the labeling is not anti-competitive and does not harm the public interest. This study should include labeling of point of origin and growing practices, as well as other factors for product differentiation. The study



should identify ways that USDA and other government agencies can be supportive of product labeling of these intrinsic values for the purpose of adding value to farm products.

- c) The Commission acknowledges the recent efforts by USDA to create farmers markets at USDA's headquarters in Washington, DC, and with neighboring Federal agencies. USDA should continue to expand the development of farmers markets at USDA office sites throughout the country. However, this should not be a top-down approach. It must include the input and involvement of area farmers in designing the market. Care should be taken to ensure that USDA-sponsored markets do not compete with existing markets. Vendor participation in these markets should be limited to farmers directly involved in growing their produce for sale, and should not include vendors who purchase produce from distributors.
- d) With the recent doubling of funds for the Women, Infants and Children/ Farmers Market Nutrition Program (WIC/FMNP) for FY 1998, USDA should proceed to expand the program to more States and to areas where it has only been available in limited areas. USDA should continue to pursue increased funding to eventually serve all 50 States and U.S. Territories and possessions. USDA's WIC/FMNP is a model program that provides small farms with expanded markets for fresh produce (\$9 million to 8,250 farmers in 1996) while at the same time meeting the nutrition needs of low-income families. Nutrition education and cooking classes should be coordinated with participating farmers markets to provide WIC recipients with the knowledge needed to prepare fresh produce for consumption.
- e) As USDA's Food and Nutrition Service (FNS) proceeds to replace paper food stamps with the Electronic Benefits System, USDA should fund demonstration projects to find technologies and outreach strategies that enable the uninterrupted use of food stamps at farmers markets. Equipment and training should be available for those markets needing assistance. At the same time, FNS should pursue strategies for enabling food stamp use through Community Supported Agriculture programs.
- f) The Commission endorses the efforts of FNS, AMS, and NRCS to pursue marketing opportunities for small farms to supply local school lunch programs. These agencies should be commended for taking this step, and should pursue the pilot programs in North Carolina, Georgia, and Florida with a commitment to overcoming any barriers to developing this market. Cooperative Extension should also be involved in supporting this effort. The results of the pilots should be published and distributed along with a manual to encourage replication of these efforts throughout the country.
- g) Conduct a feasibility study to support a Federal Government procurement policy that gives priority to local purchasing of fresh farm and food products at Federal agency cafeterias, including national parks.



- h) The Cooperative State Research, Education, and Extension Service should assess the new Community Food Projects and publicize the best projects as models for replicating community food security and connecting low-income people with small farmers.

Entrepreneurial development

Small farmers have the potential to meet specific market niches, but this potential has never been intentionally pursued by USDA. Small farmers have unique needs, constraints, and opportunities that have often been overlooked in the design and delivery of USDA programs. For small farmers to survive in the fast-changing agricultural industry that is dominated by large-scale production and concentration in the food processing sector, creative financing, specialty production, and niche marketing could serve to develop a competitive edge for small farmers.

Small farmers need to be considered as viable forces in shaping community-level economic development. While small farms have difficulty competing with large farms that supply most of the national and international food markets, small farms can be competitive at supplying local and regional food markets and, in some cases, niche export markets. Small farms have the ability to get face-to-face with local consumers, retailers, restaurants, and institutional (schools, government agencies) markets. To pursue these markets and improve farm profitability, small farmers will need to pursue value-added marketing and processing strategies. In addition to operating small farms, farmers need to be adept at running small businesses.

To take advantage of the potential for small farms to be competitive in local and regional markets will require a concentrated effort in entrepreneurial development, including business planning and development, financial management, product development, and market research, analysis, and execution. Small farmers have the ingenuity of entrepreneurialism; however, in most cases, they are only adept at one of the three key areas of business. Farmers are great at production, but some times lack skills and innovations in marketing. And in many cases, financial management skills are also lacking. Testimony from a South Dakota farmer best exemplifies this issue: "I go to meetings where they teach me to tank mix my application of herbicide, they teach me to do no-till. They teach me to be a better marketer. I have never been invited to a meeting where they can teach me to be a processor. Not a one."⁶⁰

Recommendation 3.27

USDA should launch a Small Farm Entrepreneurial Development Initiative to provide small farm operators and beginning farmers with targeted entrepreneurial training, integrated technical assistance, and priority program funding for the purpose of developing farmer owned and operated, value-added processing and marketing enterprises to serve local and regional community food systems.

⁶⁰ Paul Casper, farmer and member of South Dakota Soybean Processors, testimony at the Sioux Falls, South Dakota public meeting, August 22, 1997.

The initiative could be launched as a pilot program in 5-10 localities/regions of the country for a period of 2 years. The pilots could be distributed geographically in the most agriculturally dependent regions of the country or locations with the greatest concentrations of small farms. Particular emphasis should be given to the tobacco-dependent counties of Appalachia. The initiative could consist of 3 parts:

- a) **Entrepreneurial training:** The Entrepreneurial Education Foundation's "FASTRAC"⁶¹ business development curriculum should be adapted to apply to farm-based business development. The business development curriculum could also be adapted from other programs, such as EDGE supported by US West. The curriculum could be delivered via distance education instruction to downlink pilot sites. Successful farm-related entrepreneurs should serve as guest lecturers to provide real world insights from experienced business people. Each entrepreneur should leave the training with a completed business plan for actual application to an existing or start-up business activity.
- b) **Integrated technical assistance:** At each pilot site, "co-learning teams" should be established. The teams should consist of entrepreneurs along with USDA field staff from FSA, RD, NRCS-RC&D, Forest Service, Extension, and staff from EPA, Small Business Administration, the Department of Commerce' Economic Development Agency, Department of Interior, land-grant university and ARS scientists along with State, nonprofit, and private consultant rural development professionals. The concept of the teams is three-fold: 1) to provide each entrepreneur with ready access to and support from an integrated source of USDA and non-USDA service providers, 2) to provide experiential training in entrepreneurial development for service providers to build their capacity for assisting would-be entrepreneurs, and 3) to become more adept at leveraging the expertise and resources of each individual agency and organization to provide a comprehensive and integrated array of assistance needed by entrepreneurs.
- c) **Priority program funding and assistance:** Based on the model of the Empowerment Zone/Enterprise Community and the President's Timber Initiative, the pilot sites could be granted priority in receiving funding and assistance from existing USDA programs to assist the start-up of new enterprises. This could include non-formula research and extension funds, research projects by ARS, marketing assistance through FSMIP grants or economic research provided by ERS, Rural Development's business loan and grant programs, export assistance through the Foreign Agricultural Service, and more. The idea is to apply the full array of USDA resources, expertise, and knowledge, in partnership with other business development providers within the pilot sites, for the purpose of creating farm-based businesses where small farmers can increase their farm income through value-added processing and marketing enterprises.

The marketing is the tough thing. I mean, as farmers, we were not trained to be marketers. We were hauling the stuff to town and saying, "What'll you give me for it?"

— Ron Macher, Missouri

⁶¹ "FASTRAC" is a proven business development curriculum program, developed with support from the Kaufman Foundation, and offers comprehensive business training in financing, production, and marketing through a multiple-week training program.

Meat inspection

Market access is critical for producers who want to direct market their products to consumers. Conflicting regulations can present barriers to small farmers in gaining access to these markets. For example, if a farmer wants to direct market beef to consumers, processing of the animal can be done either in a State or federally-inspected processing plant. The State-inspected plant is the most likely choice for farmers selling locally since they are generally smaller and more locally available. Federal plants may be hundreds of miles away from the farm and are more costly to the farmer. But, the standards are different for the farmer. When selling State-inspected meat, the farmer must sell by live weight, by 1/4's or 1/2's of a carcass, and cannot sell across State lines. In order to sell by the cut, to restaurants, groceries, or across State lines, Federal inspection is required. In many States, the State inspection requirements meet or exceed the Federal requirements, but they limit the access farmers have to potential customers.

Under the provision of the Wholesome Meat Act of 1967, States were given the choice of establishing their own programs or only taking responsibility for inspecting the facility of those who do custom processing of animals sold live to the consumer. Only 27 States established their own program, largely due to prohibitive costs. But States where such a program was established say they are better equipped to deal with the needs of smaller processing plants. The National Association of State Meat and Food Inspection Directors argues that a State program is a better bargain for the taxpayer since it doesn't require the higher wages and expensive bureaucracy that go with hiring Federal inspectors. Federal-based meat inspection officials are geared up to guide the operation of large national packers but often cannot easily adopt regulations to fit small local packers.

Some States, such as Minnesota, have argued that dropping of a USDA restriction on interstate shipping of State-inspected meat would provide an incentive for States to create their own inspection programs. Officials from States like Wisconsin, where there is an inspection program, have argued that their inspection program must be on par with Federal regulations anyway, so there is no reason to restrict interstate shipment of meat that comes from small approved plants.

The National Association of State Departments of Agriculture has proposed legislation that would drop the shipping restriction. Large packers have successfully lobbied against past reform and maintained dominance in interstate trade. USDA is examining current policy and exploring options to revise the Federal-State meat inspection law.

Recommendation 3.28

The Commission endorses the recommendation of USDA's Advisory Committee on Agricultural Concentration. "Urge USDA to take aggressive action in a timely manner to end the inequities in meat inspection. With regard to Federal and State inspections, the committee recommends that appropriate steps be taken to promote the ability of State-inspected packing plants that meet Federal standards of inspection to compete by selling meat in interstate commerce. Provided, however, that such steps do not undermine the integrity of the U.S. position regarding acceptable inspection standards and safeguards for imported meat."

Statistical data collection

The National Agriculture Statistics Service data collection and ERS analyses fail to adequately measure and describe the current structure of production agriculture. While our food production system has changed from diverse commodity and livestock production per farm unit to largely monoculture production per farm unit, our statistical analysis stops short in its ability to account for the value of specialized or segmented production levels. Reliance on statistics with limited descriptive quality can lead to improper or ineffective policy decisions.

Specifically, when USDA describes that 1.9 million small farms produce only 41 percent of the "value of production" and 122,810 farms produce 59 percent of the "value of production," the measure does not take into account the fact that not all farms are producing the same commodities, much less at the same level of production. For example, 50 years ago a calf was born, weaned, grass fed and later grain fed usually on the same farm or farms of similar size and structure, and then sold direct to slaughter. Today, the calf may be born on one farm and be valued at \$400, then sold in the spring for \$500, again in the summer at \$700 and, later for slaughter at \$900. The same animal might begin in a 39-head cow-calf herd and be counted at a much lower "value" than when it is counted again as part of a 10,000-head feedlot.

The use of gross sales as a measure of contribution to farm production value fails to distinguish between the levels of production and the value of the production at each level. Gross sales as an indicator will be biased toward the value-added segments of agricultural production, such as the cattle feedlot. Without more precise indicators to measure the contribution of the primary level of production, the contributions of small farms will be misrepresented.



Recommendation 3.29

The National Agriculture Statistics Service should redesign its methods for measuring the value of production from U.S. farms to include another level of analysis that fully and adequately distinguishes the separate production levels of our mostly specialized production system. These levels would include:

- a) **Primary** – This would measure the value of the first-level production; includes cow/calf, lamb, farrowing, grain production, hay, fruit, vegetable, etc.
- b) **Secondary** – Dependent on the primary level for inputs; includes dairy, cattle feeding, hog feeding, etc.
- c) **Tertiary** – Processing of raw commodities; includes livestock slaughter, canning, milling, etc.
- d) **Retail** – The final processed product ready for consumption.

Delineating production according to these levels should provide a more accurate look at the type of farms and their contribution at each level of production. In particular, by isolating the primary level of production from the other levels, analysts should be able to determine the health and performance of this most essential level of production. Differentiation among the levels of production should allow USDA analysts to see the primary farm production without all the added secondary steps in order to make a sound, data-supported, less intuitive leap to expose the real status of the essential production system.



Policy Goal 4

Conduct Appropriate Outreach Through Partnerships to Serve Small Farm and Ranch Operators

At the Memphis hearing the Commission heard that “sometimes, attempts to find the starting place for access to federally generated or federally supported information that is relevant to small family farms were intimidating, confusing, or sometimes led to less visible, underfunded, and overextended offices or people. So it is out there but sometimes it is hard to know where to begin.”⁶² Information is critical in making wise farming decisions and there are many sources of information. USDA has a responsibility to actively provide this information to all its customers. Increasingly, research and extension institutions are underfunded and overextended. This is where partnerships with community-based organizations, nonprofits, land-grant universities, and other interested groups should be fostered by USDA so that small farm operators are given the greatest opportunity to become aware of and use USDA programs. USDA and its partners should actively seek out small farm and ranch operators.

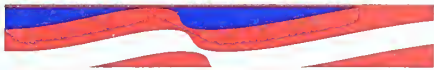
The Commission recognizes that USDA and its partners have various tools to reach their customers, such as newsletters, press releases, workshops, conferences, and World Wide Web pages. However, we heard that information about USDA programs is not reaching all potential customers as effectively as it should. A representative from a community-based organization stated at the Washington, DC, hearing that “we think one of the biggest things that keeps limited-resource farmers from succeeding is their lack of access to services. We believe outreach is absolutely critical to this function.”⁶³ Effective outreach can make the difference in access to services. At the Sacramento hearing the Commission heard that, “the problem comes when it comes to translating—better said, to disseminating—these results. Usually, we operate under very limited resources, and it’s not easy to have an outreach coordinator or someone that can go out and promote the results or promote the adoption of these practices.”⁶⁴ His statement emphasizes that USDA and land-grant universities have information needed by small farm operators; however, there are barriers to its effective transmission. This includes less than adequate resources for outreach as well as mismatches between the methods and the target groups.

With these types of constraints, USDA must continue to seek partners in providing information about its services. The Civil Rights Action Team (CRAT) report made several recommendations dealing with outreach. Progress has been made in some areas. However, the Commission believes that more

⁶² Testimony of Teresa Maurer, Appropriate Technology Transfer for Rural Areas, Fayetteville, AR, at public meeting, Memphis, TN, July 28, 1997.

⁶³ Testimony of Lorette Picciano, Rural Coalition, Washington, DC, at public meeting, Washington, DC, September 10, 1997.

⁶⁴ Testimony of Jose Montenegro, Rural Development Center, Salinas, CA, public meeting at Sacramento, CA, September 15, 1997.



needs to be done to ensure that information reaches small and underserved farmers. Outreach opportunities will be enhanced by developing partnerships between USDA, the land-grant universities, community-based organizations, and nonprofits that have direct contacts with small farm and ranch operators. In a August 1997 policy brief from *The Urban Institute* stated that “experience has shown that when nongovernmental institutions become partners with public agencies, they can sometimes accomplish things that have proved difficult for government to do alone.”⁶⁵ The time is ripe to forge partnerships and to pay more attention to communication methods, media, and techniques that can enhance our collective level of impact.

Identify small farm and ranch operators

In order to reach clientele more effectively, USDA and its partners need to focus on client identification by obtaining up-to-date information on who and where the clients are. The following are recommended:

Recommendation 4.1

The Commission recommends that USDA develop a voluntary directory of small farms and ranches through the utilization of local county personnel of each agricultural agency and that this directory be developed in cooperation with the voluntary minority farms registry. The Commission recognizes that FSA, NRCS, and Rural Development work with local groups and programs in counties across the country, and USDA should use those resources to complete the directory. Such programs and partners include, but are not limited to, the Resource Conservation and Development (RC&D) Councils, the Outreach and Technical Assistance Program for Socially Disadvantaged/Minority Farmers program (Sec. 2501 program), and community-based organizations.

Recommendation 4.2

Upon completion of a county directory of small farm and ranch operators, the county will present its information to its State Outreach Council. The Council will be a part of the Food and Agriculture Council in each State. The USDA Office of Outreach will then oversee completion of the project. The State lists should be readily available to all agencies for their work with small farmers and ranchers.

Recommendation 4.3

Local USDA agency personnel and supervisors should be held accountable for target audience outreach programming. The Commission fully supports CRAT recommendation No. 9, which requires the establishment of reporting requirements to periodically collect data from USDA field offices to measure program delivery to minority, women, and small and limited-resource farmers and support its immediate implementation. Documented efforts and successes to reach those small farm operators will be used as a measure of performance of each agency's overall performance in serving underserved customers.

⁶⁵ Kingsley, G. Thomas and James O. Gibson, *Civil Society, The Public Sector, and Poor Communities*. The Urban Institute. Washington, DC, August 1997, No. 12.

Strengthen outreach and program delivery

Creative programs in farm apprenticeships and on-the-job training, such as those of the Rural Development Center in Salinas, California, have trained and educated minority farmers and farmworkers for entry-level farm operations. To take advantage of those working relationships and programs, partnerships should be developed and strengthened so small and underserved farmers can gain greater access to USDA services and land-grant institutions. The Commission consistently heard that the (1) lack of credit; (2) lack of information; and (3) complexity of program compliance have contributed to the loss of viability by small farm and ranch operators. Effective outreach and program delivery could relieve some of the problems in these areas. The Commission recommends the following:

Recommendation 4.4

The Secretary should request that Congress authorize USDA to develop a program, using direct loan funds, to establish a relending program administered by community-based and nonprofit organizations. Currently, Rural Development administers the Intermediary Relending Program. Through this program, direct loans are made to intermediary borrowers (i.e., private nonprofit corporations, State or local government agencies, Indian tribes, and cooperatives) who, in turn, relend the funds to rural businesses, private nonprofit organizations, and other qualified recipients. The recipients must use the loan for economic and community development projects, the establishment of new businesses and/or the expansion of existing businesses. The proposed relending program should be geared toward small loans to purchase equipment, supplies, and other inputs for production agriculture for small farms, including purchases of land.

Network and mentoring programs; educational services

The Commission determined that the establishment and continued support of farmer support networks, mentoring programs, apprenticeship programs, and consortiums are critical for small farm and ranch operators to exchange information with one another, with key partners who support small farmers and ranchers, and with consumers wanting to learn more about small-scale agriculture. The Commission heard that the feelings of isolation which many farmers experience could be mitigated through farmer networking. Beginning farmers or farmers venturing into new crops can benefit from direct feedback from other farmers with greater experience.

One example of a relatively effective innovation in networking is *The Sustainable Agriculture Network*, a cooperative effort of university, government, farm, business, and nonprofit organizations dedicated to the exchange of scientific and practical information on sustainable agriculture systems. NRCS has also established the *National Science and Technology Consortium*, a support mechanism used to provide consistency in the development and delivery of technical products and services throughout NRCS. The consortium includes partners such as colleges, universities, non-government organizations, and the private sector.

Another example includes the one-on-one small farm assistance program offered by the Cooperative Extension Service in Kentucky as described to the Commission during the Memphis hearing. USDA could also build upon the work of the Retired Educators for Agriculture Programs (REAP), whose purpose it is to recruit African-American youth and reestablish them in the vocational agriculture and 4-H programs in the public schools in Oklahoma. This group could be considered by USDA as a nucleus to start using the expertise of retired minority USDA employees. They are a valuable resource and in many cases know the people needing the services.



Recommendation 4.5

The Commission recommends that USDA, through the newly formed USDA Office of Outreach, strongly suggest that Farm Service Agency State Executive Directors, Rural Development State Directors, NRCS State Conservationists, and State Cooperative Extension program administrators and directors support the formation of such networks, mentoring programs, and consortiums for small farm and ranch operators. As networks, mentoring programs, and consortiums are developed, one of the goals of each should be the continued viability of small farms and the wise use of our natural resources on private and public lands.



Recommendation 4.6

The Commission encourages USDA to continue to fund training sessions, newsletters, and other educational materials through our traditional partner organizations, as well as with new ones.



Recommendation 4.7

The Natural Resources Conservation Service and other appropriate USDA agencies should conduct local educational seminars for small and traditionally underserved farmers and ranchers for the purpose of explaining agency programs, including the environmental and economic benefits derived from the programs. These seminars should target conventional and organic farmers.

USDA can support community-based organizations not just through funding, but also through collaborative projects that help guide university research and extension programs to better serve minority farmers.

- Jose Montenegro, California

Farmer advocates

Farmers face many regulations as they operate their farms. The regulations may be governed by the financing arm of USDA or the Farm Credit System, the regulatory arm of EPA, or various local and State authorities overseeing land use and taxes. To understand and comply with these regulations is a part of doing business. However, it is also important that farmers be treated fairly and given timely information that they need to conduct their business. In the 1980's, a number of farmer advocates were established in various areas of the country to help farmers understand their choices and responsibilities under the various USDA programs. Some farmer advocates are supported by organizations and their services are provided at no charge to the farmer. In other cases, farmers must pay a fee to the farmer advocate. Currently, there are approximately 65 groups, in addition to State departments of agriculture, that provide some type of farm advocacy assistance.

**Recommendation 4.8**

USDA should work with community-based organizations to train people in becoming farmer advocates and create a pool of qualified farmer advocates. This effort could be funded through a grant program, jointly funded by USDA in collaboration with nonprofit funding organizations, to facilitate the establishment of a program or the continuation of programs already established.

Outreach program for cooperating banks

The full potential of programs is not being achieved due to the lack of assertive outreach with specific customers or because the products of a program are slow in getting into the hands of the small farm operator. During the Memphis and Sioux Falls hearings, the Commission heard that educating lenders about USDA programs and the needs of small farm operators is a necessity if USDA lending programs are to be effective in serving small farm and ranch operators. The Commission appreciates the work being done by USDA to garner input from lending stakeholders and attending lending conferences, but more proactive measures are needed in order to meet more fully the needs of small farmers.

**Recommendation 4.9**

The Secretary should direct the FSA Administrator to develop and implement a formal outreach program directed at the commercial lending community to promote guaranteed lending for small farm and ranch operators, with special emphasis on women, beginning, and minority farmers, and to work with the commercial sector to remove barriers to guaranteed lending. Farm Credit System- and USDA-approved guaranteed loan banks should be encouraged to participate with USDA in improving credit access to small, beginning, and traditionally underserved farmers.

**Recommendation 4.10**

USDA Rural Development should strengthen its current outreach program for the Business and Industry Guaranteed Loan program to banks as a source of funds for locally owned value-added businesses. The Commission understands that a video is available at State offices at no cost for industry meetings and conferences, a presentation is available upon request, and updated brochures numbering 450,000 were distributed to field offices. To measure effectiveness, the Commission recommends a requirement that loans under this program be prioritized for locally owned, value-added farm-product-related business or small farm business operations.

**Recommendation 4.11**

USDA should utilize existing regional and national conferences and workshops to inform potential lenders about the Intermediary Relending Program (IRP) program, and about the opportunities for using it for locally based market development for small farms. USDA Rural Development program staff should actively seek opportunities to conduct workshops at annual conferences of small farm organizations and community-based organizations that serve farmers, such as the Small Farm Conference in California, the Federation of Southern Co-ops annual meeting, and the annual Small Farm Trade Show and Conference in Missouri.



Risk management program delivery

Risk management is seen as a major part of the “safety net” in times of disaster and low prices, yet products to match the modern day dilemmas are slow in coming and in reaching the small farm operator. Due to the 1996 FAIR Act, producers are making management decisions in a new era of farm policy. In some programs, major changes are made, yet affected farmers do not receive the information in a timely fashion to make sound business decisions. In some cases, basic training is needed to ensure business decisions are based on sound principles. In April, USDA announced a multi-year \$5 million initiative to energize risk management outreach. The initiative is expected to intensify private and public sector efforts to introduce producers to risk management tools.

Recommendation 4.12

Educational efforts by the USDA Risk Management Agency (RMA) (former Federal Crop Insurance Corporation) should address sustainable agriculture practices as a means of managing risk. Efforts should attain a high level of participation by small farm and ranch operators. (“Risk management” is the new terminology for “crop insurance.”) RMA should establish and provide information and strategies from data accumulated on small farms. The RMA educational initiative must document the number and type of small farmers and ranchers it has reached; what products of risk management have been developed specifically for small farmers and ranchers to create a safety net; and the number of small farmers and ranchers using those products. In order for USDA to be of assistance to producers, it must conduct research that will allow the producer to have more information about risk management, production practices, marketing techniques, and processing options.

Recommendation 4.13

The Commission recommends that the Secretary of Agriculture support legislation and take administrative action to: (a) expand coverage nationwide to insure non-commodity crops; (b) increase transitional yields to all counties for all crops; (c) increase Federal Government subsidy on crop insurance premiums to support levels of 75 percent without increasing farmer premiums at the current level of 65 percent; and (d) increase the Noninsured Crop

Disaster Assistance Program (NAP) levels to 70 percent yield and 80 percent price while maintaining premium cost currently paid by farmers. The value of coverage should not exceed \$250,000 in annual gross sales.

Effective outreach materials

Improvement is needed in agency outreach tools and documents. The way a form is written, the way a brochure is prepared, the way employees present themselves to customers are all important in determining if a potential USDA customer is going to receive the service needed. The Commission is aware that FSA did revise the direct loan assistance form in 1997 and did reduce the number of forms sent to applicants. USDA should continue to make revisions that benefit the applicant.

Recommendation 4.14

The Secretary should direct the FSA Administrator to immediately develop and implement a formal outreach program to directly notify the approximately 8,400 clients faced with shared appreciation of their options and what actions USDA is taking to assist in defusing this situation, as recommended by Policy Goal 1, Recommendation 1.22.

Recommendation 4.15

USDA should streamline applications in all agencies and develop a "low doc" application for smaller grant and loan requests. Program staff should assist small and limited-resource farmers with completing the application process. Agencies should make applications available in appropriate languages and hire or contract with employees proficient in appropriate languages to assist applicants.

Recommendation 4.16

The Commission recommends that each agency should identify and implement effective ways to reach small farmers. The new USDA Office of Outreach should be empowered to evaluate agency plans for effectiveness. The Commission fully supports implementation of CRAT recommendations 38, 39 and 40:

CRAT Recommendation No. 38 - "Develop a strategic outreach plan, as part of USDA's strategic plan, for which Agency Heads will be held accountable through the Civil Rights performance standard."

CRAT Recommendation No. 39 - "Establish in each agency an outreach liaison position to coordinate and direct outreach programs in conjunction with the new USDA Office of Outreach. The agency coordinator must be responsible for monitoring outreach goals and accomplishments to underserved customers."

CRAT Recommendation No. 40 - "Establish State and National Outreach Councils, comparable to the USDA Food and Agriculture Council (FAC), to coordinate outreach efforts of all USDA agencies with State and local-level program delivery. Require that Outreach Councils establish partnerships with community-based organizations and 1890, 1994, and 1862 land-grant institutions, Hispanic Association of Colleges and Universities, and the Research and Employment Access Programs Initiative to enhance program and service delivery to underserved communities."



Recommendation 4.17

Communications should be improved within and between USDA agencies. It has been noted that USDA agencies do not effectively communicate among one another on common issues, such as assistance to small farm operators. Efforts should be taken to increase exchange and collaboration across agencies and programs to better serve small farm operators. For example, the Sustainable Agriculture Research and Education (SARE) program is a valuable program to small farm operators and USDA agency personnel should be provided an overview and training to foster understanding of the benefits of the program and garner ideas to improve their agency's efforts to reach small farm and ranch operators.



Recommendation 4.18

The Commission recommends that the new USDA Office of Outreach conduct performance and impact evaluations of programs that serve small farms. The evaluations should be used to measure the effectiveness of projects in serving the needs of small farm operators. The Office of Outreach is directed to develop a system to determine the effectiveness of agency outreach efforts. Based on annual appraisals, agencies could determine if small farmers and ranchers are being reached. The Office should work with the Office of Communications and CSREES to develop means of determining effectiveness through focus groups and other measures. As part of project or program implementation, USDA should require impact assessments.

Continuing education

Farmers need on-going development of skills and knowledge and continued education to upgrade their skills. Some people are interested in becoming farmers, but lack farming skills. A process should be developed that encourages farmers to learn and to keep up with the changing trends in agriculture. Constraints on continued skills development include, among others, time of course offering, lack of transportation, language barriers, and schedules that conflict with USDA office hours.



Recommendation 4.19

USDA agencies should develop innovative ways to improve access to learning opportunities and to encourage participation. One example includes USDA offering certificates of completion for courses or meetings attended by small farm operators. Then, local communities and businesses could be encouraged to recognize these certificates with some type of benefit to the farmer, such as a discount for services or with a congratulatory posting by the community showing support for the farmers. USDA's success could be measured by how many new participants were reached within 1 year of this report being issued.



Recommendation 4.20

USDA Administration should review employment policy to provide the flexibility for USDA offices to be partially staffed on Saturday or after regular office hours to accommodate the schedules of small farm and ranch operators and to be accessible for community meetings and other outreach activities. Also, USDA local offices could hold open houses to provide an opportunity for small farm and ranch operators to become familiar with the operations of the office.

**Recommendation 4.21**

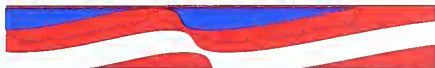
USDA should encourage the use of local paraprofessional technicians, when and where it is cost-effective, to assist in office paperwork processing, assist clientele in the application process, and disseminate timely program information.

Forestry outreach

The Forest Service has a major responsibility to ensure healthy, sustainable forests on Federal as well as non-Federal lands through stewardship planning and professional technical assistance. The Commission heard during the Portland, Oregon, hearing that “any of the USDA programs and activities aimed at maintaining or enhancing the viability of small farms should include the element that focuses on forest production.” As timber harvesting on public lands has decreased, timber companies are increasingly looking to private woodlot owners for their source of timber. About fifty-eight percent of all the forest land in this country with the potential to produce commercial quantities of timber is owned by small farm operators and non-industrial private owners. Clearly, outreach is needed to ensure sustainable forestry for conservation and economic purposes.

**Recommendation 4.22**

The Secretary should direct the Chief of the Forest Service to intensify outreach efforts directed toward small farm operators and traditionally underserved farmers who own private woodlots. The Commission strongly supports the concept of an Outreach Coordinator position at regional levels within the Forest Service. This concept is described in the Civil Rights Action Team Report, Recommendation No. 39.



Policy Goal 5

Establish Future Generations of Farmers

For me, as a small, young farmer, if I'm going out right now, and I'm going to try to start a farm or start a program, I go to get money, they just kind of look at me and laugh. They just don't really understand the reason why I'm there or what I'm trying to do.

— Joel Harper, Kentucky

The future structure of agriculture depends on the ability of a new generation to enter farming. Entry into the farming business necessitates the existence of a well-developed infrastructure of support. The barriers that hinder the next generation from entering farming are significant. Challenges to farm entry include:

- Inability to acquire the initial capital investment
- Insufficient farm entry strategies
- Inadequate access to appropriate financial, managerial, and production assistance for entering and exiting farmers.

The challenges to the continuance of small farms are highlighted by demographic data on the farm population based on the 1992 Census :

- The average farmer was 53.3 years old in 1992, up from an average of 50.3 in 1978.
- Between 1982 and 1992, the percentage of young farmers under 25 was cut in half.
- Twenty-five percent of all farmers are 65 years of age and older.

The future of small farms, and the businesses that rely on them, will depend on young people being able to enter careers in farming. USDA-ERS research predicts that between 1992 and 2002, a half million older farmers will retire – approximately one-fourth of all farmers. ERS predicts they will be replaced by only 250,000 farmers.⁶⁶ It will be critical to regenerate a trained, skilled base of prosperous, stable, community-involved independent farm business families. These families will provide an element of economic stability for rural America, protect its prime farmland and steward the land into the next century.

At no other point in the history of U.S. agriculture have we faced such a wide generational gap in farm participants. USDA and other researchers have studied this problem but no comprehensive strategy has been launched by USDA to date to improve opportunities to enter farming.

One strategy for the development of new farmers is apprenticeship programs. The Commission heard testimony about an effort to train farmworkers to become farmers in the Salinas Valley of California. The Rural Development Center (RDC) is a nonprofit organization that trains groups of farmworkers in the production, management, and marketing of fresh produce. They receive instruction in organic vegetable production and have access to machinery and land owned by RDC. Upon completion of the training program, they are prepared to begin farming, but often face barriers gaining access to credit to purchase or lease land. According to one of the RDC trainees, the program

⁶⁶ Gale, Fred. 1994. The New Generation of American Farmers, Farm Entry and Exit Prospects for the 1980's. AER-695. USDA-ERS.



provides a tremendous opportunity to learn to farm. However, barriers remain in obtaining "...technical assistance; access to credit; assistance and more information in our own language, being Spanish; more support in organic farming as an alternative; more information regarding marketing; more accessible organic land for small farmers so that we can work in a healthy environment; and more control, because there's an intermediary that controls the prices."⁶⁷

Programs like this one that help create the opportunity for people to begin a career in agriculture can be supported and replicated in order to establish the next generation of farmers. In the same way that Federal Government agencies such as Health and Human Services and private foundations are concerned about the aging of rural doctors, we should be as concerned about the aging of our Nation's farmers and should take the requisite steps to support opportunities and provide incentives for people to enter farming.

The Commission also received testimony describing several State agency and nonprofit organizations that address the barriers to entry for beginning farmers. These efforts include programs that link retiring farmers with beginning farmers; development of new, regionally appropriate transition and tenure models; and development of a National Farm Transition Network to strengthen existing programs and help to establish new programs throughout the country. The need for transition programs was affirmed by a South Dakota banker who said, "I think we need more shared (opportunities) —the guy who is trying to phase out cooperating with somebody trying to phase in. You load enough debt on a beginning farmer or a small farmer to take over a good-sized operation, and his risk of failure just goes through the roof. But if you've got a partnership between somebody who's trying to retire and someone who's trying to get in, the balance of that risk shifts a bit."⁶⁸

Access to capital is a critical component in establishing the next generation of farmers. One-fourth of young farmers (under 35) have a net worth of less than \$100,000, well below what ERS classifies as necessary for a viable commercial farming operation of \$500,000 in capital. Credit is one critical source for obtaining capital, but "about half of all young, low-equity farmers fail conventional underwriting standards and have difficulty obtaining commercial credit."⁶⁹ Instead of credit, young farmers often rely on renting land rather than purchasing. Landlords provide most of the real estate capital managed by beginning farmers. Merchants and equipment dealers are also an important source of operating credit for beginning farmers.

USDA assistance for beginning farmers has been primarily in the form of subsidized credit for operating costs and farm ownership. Beginning in 1992,

⁶⁷ Testimony received from Carlos Aguilar, Rural Development Center, Salinas, CA. In Washington, DC, on September 10, 1997.

⁶⁸ Testimony from Boyd Waara, Vice President, First National Bank in Philip, South Dakota, at August 22, 1997 Public Meeting of the National Commission on Small Farms.

⁶⁹ Issues in Agriculture and Rural Finance / AIB-724-04, Economic Research Service, USDA, August 1996, p. 2.



FSA initiated a downpayment loan program for beginning farmers to purchase land. A beginning farmer can make a downpayment of 10 percent for a farm purchase and FSA will finance 30 percent of the purchase at a subsidized interest rate. Another lender finances the remaining portion, which can be guaranteed by FSA.

The 1996 FAIR Act created additional opportunities for assisting beginning farmers with access to credit. The downpayment guarantee was increased to 95 percent. Beginning farmers are eligible to participate in the joint financing program for farm ownership loans where FSA can provide half the financing of a farm purchase at no less than 4 percent interest. Another lender provides the remaining financing that can be guaranteed 90 percent by FSA. The FAIR Act targets 70 percent of direct farm ownership loans to beginning farmers, 60 percent of which is to be used for downpayment loans. Beginning farmers also have priority in purchasing farmland from FSA inventory.

The South Dakota banker also expressed caution in assuming that access to credit will solve the entry barriers for beginning farmers, noting, "... it is unwise and unhealthy to substitute credit, even if it's subsidized credit, for income."⁷⁰ Debt without certainty of income can prove to be a disastrous venture for beginning farmers. While recent changes in USDA credit policy have shifted attention to beginning farmers, non-credit programmatic efforts are needed to create greater economic opportunity for beginning farmers. Initiatives to assist beginning farmers are needed to tailor research, extension, and marketing assistance to the needs of new entrants.

Tax policy plays a critical role in the transfer of farmland, private woodlands, and other assets from one generation to the next. Neal E. Harl, an Iowa State University agricultural economist, explains that taxes are part of an incentive system. As the level of taxes on assets changes, the incentives to invest or not invest in that asset are affected. With regard to the Taxpayer Relief Act of 1997, agriculture will be most affected by the reduction in capital gains tax rates and the creation of the family-owned business exemption.

Harl projects that different rates of tax for capital gains distort economic activity by encouraging people to invest in response to tax incentives rather than the market and will be used for the primary purpose of tax sheltering. The recent capital gains changes will not "unlock" assets, according to Harl, and will largely benefit the top 5 percent of taxpayers. He States that "the economic fortunes of this country over the next century are likely to be more dependent upon investment in human capital than investment in real capital assets. If we want to create an incentive, it's investment in people that will boost national income."⁷¹

⁷⁰ Testimony from Boyd Waara, Vice President, First National Bank in Philip, South Dakota, at August 22, 1997 Public Meeting of the National Commission on Small Farms.

⁷¹ Harl, Neil E. Guide to the Taxpayer Relief Act of 1997 (Public Law 105-34) Signed August 5, 1997. Iowa State University p. 43-45.

Beginning farmer eligibility requirements

The Commission heard of several cases where young people seeking FSA loans were denied because the eligibility requirements have been interpreted to discount the farming experience of young people who grew up farming with their parents, worked as hired farm labor, or received training through on-farm internships and apprenticeships. FSA's eligibility criteria for beginning farmers does not adequately take into account the on-farm experience of young potential farmers.



Recommendation 5.1

The Farm Service Agency Administrator should issue a national policy statement that clarifies and defines the documentation necessary to certify eligibility requirements for beginning farmers. The eligibility requirements should include specific allowance for persons raised on family farms or who have farm experience as hired farm labor or from internships and related training programs.

Farm transfer

Currently, if a farmer wishes to transfer the farm to his or her heirs and take some equity for retirement, the heirs must apply for and receive an acquisition loan with which to "buy out" their parent(s) and a separate operating loan. The process is cumbersome and frequently impossible because no credit is given for the fact that the long-term operators are still, for all intents and purposes, engaged in supervising the farm operation. The heirs might have trouble qualifying under beginning farmer eligibility rules even though they have been actively engaged in operating the farm with their parents.



Recommendation 5.2

Both the Farm Service Agency and the Farm Credit system (FCS) should streamline and facilitate improved transfer and assumption programs of existing FSA and FCS loans between family members to improve transferring farms from one generation to another.

First Time Farmer Bonds

Tax-exempt bonds issued by States, called First Time Farmer Bonds, are used in approximately 30 States for the backing of low-interest farm ownership loans for beginning farmers. However, the potential of these programs to help new farmers enter farming has been limited due to the size of these programs. In addition, First Time Farmer Bonds are a small part of the tax-exempt bonds that States use for economic development, but some of the most successful bond programs are bumping up against their caps. The potential of these programs could be expanded through legislative changes.



Recommendation 5.3

Congress should authorize the Farm Service Agency to guarantee tax-exempt First Time Farmer Bonds used to make loans to beginning farmers and ranchers. Certain agricultural bonds should be exempt from the industrial revenue bond cap each State has under Federal regulations. These bonds should be allowed for use in seller-financed transactions between family members.



Farm Credit System

The Farm Credit System, as a government-sponsored enterprise, is required by law to provide credit and financial services to beginning and small farmers. However, the law does not specify any target levels or accountability to ensure that FCS is serving the needs of these farmers. FCS has a poor record of lending to small, limited-resource, beginning, and minority farmers. USDA-ERS analysis shows that FCS primarily lends to older and well-established farmers. In 1994, only 4 percent of FCS debt was held by farmers under the age of 36, compared to a national share of 14 percent debt owed by young farmers.⁷²

Recommendation 5.4

The Commission strongly encourages the Farm Credit System to do a better job providing financing to low-equity farmers across the country. USDA must review carefully and undertake necessary changes to its guaranteed lending programs for FCS institutions to more fully utilize guaranteed lending opportunities. Congress should enact legislation requiring that at least 15 percent of the Farm Credit System borrowers include low-equity, beginning farmers annually. This legislation could be modeled after the lending requirements placed on Fannie Mae and Freddie Mac to serve low-income borrowers and underserved communities.

Beginning farmer development

The National Farm Transition Network as well as the Rural Development Center in Salinas, California, are models that should be replicated throughout the country for the purpose of providing farmworkers and beginning farmers with the information, technical assistance, mentoring, and training needed to make a successful start in farming.

Recommendation 5.5

USDA should develop a new Beginning Farmer Development Program to support the establishment of multiple beginning farmer training and assistance centers throughout the country. The centers should be formed as collaborations among community-based organizations, in particular, the farm link programs of the National Farm Transition Network, land-grant universities, philanthropic foundations, and private sector organizations, such as banks and agricultural cooperatives. These centers would provide direct training in all aspects of farm management, and provide long-term support through mentoring programs with existing farmers and among peers. Five million dollars could be made available through the Fund for Rural America as a competitive grant for seed money to establish the centers. Funding could also be leveraged from existing USDA sources, such as the contract funding provided for FSA borrower training.

⁷² Issues in Agriculture and Rural Finance / AIB-724-04. Economic Research Service, USDA. August 1996. p. 2.

Beginning farmer grants

Beginning farmers can currently receive operating loans of up to \$100,000, at a subsidized interest rate. This creates an incentive for beginning farmers to borrow and adopt capital-intensive approaches to farming. Instead of loans, a grant could be an alternative, cost-effective strategy for giving beginning farmers seed money to begin to build equity in a farming operation. The grants would enable beginning farmers to build equity and enter agriculture through lower capital approaches, using low-cost technologies such as hoop houses for swine production, and low-cost approaches such as leasing breeding herds for a share of the production. This approach would reduce risk of farm failure, because beginning farmers would focus on building equity rather than debt. It would create an incentive for saving and investment, rather than borrowing. It would eliminate the potential for large government losses due to default that come with loans.



Recommendation 5.6

The Farm Service Agency should seek legislative authority to create a Beginning Farmer Grant program for the purpose of supplying seed money for beginning farmers. FSA would make grants of up to \$7,500 per year, for a maximum of \$20,000 total over 5 years. The grants would require a 50 percent cash match by a beginning farmer, or supporting community members or organizations, such as community foundations. To qualify, the beginning farmer would have to meet FSA eligibility criteria as modified in *Recommendation 5.1* and submit a suitable farm plan. Beginning farmers who receive these grants would not be eligible for chattel or other FSA operating loans at the same time. Beginning farmers grants would be no more expensive than operating loans. In recent years, the cost to government for interest subsidies and loan losses on operating loans have averaged about \$5,000 per borrower annually. The cost of a grant program would be comparable.

Tax policy

The last comprehensive study of the effects of tax policy on the structure of agriculture was conducted in the early 1980's as part of Secretary Bergland's structure of agriculture project. This research concluded that Federal tax policies altered the structure of agriculture by contributing to higher land prices, providing strong incentives for larger farm operations to grow, and by encouraging high-income taxpayers to invest in certain farming activities to shelter income. The tax code, as well as the structure of agriculture, has changed substantially since this research was completed. However, USDA has conducted little research concerning the ongoing effects of tax policies on farming opportunities and the structure of agriculture.



Recommendation 5.7

The Commission recommends that ERS coordinate a study through cooperative agreements with experts in agricultural tax law and farmland transfer. The study should include a review of the tax code to examine the effect of the current tax code on entry and exit from farming. The study should make recommendations to the President of the United States, the Secretary of Agriculture, the Secretary of the Treasury, and the Chairs of both the House and Senate Finance Committees on how the tax code can be changed to



facilitate the transfer of land to a new generation of farmers. This review should be completed and a report prepared by December 1, 1998.

The study should examine ways to provide incentives to retiring farmers to assist new farmers in getting started. Considering the average advancing age of farmers in this country (now at 53+), the Commission recommends that the tax code be revised to exempt from taxation the first \$10,000 of income from the lease of farmland, facilities, or equipment to a beginning farmer. The USDA definition of "beginning farmer" should be used.

In addition, the study should reconsider the taxation of profit resulting from depreciation recapture on equipment when the sale is under the installment method. Currently, the seller can often be in a situation where the amount of income tax due in the year of sale substantially exceeds the cash received from the sale in that same year when sold under installment. If this depreciation recapture were exempted from the immediate recognition requirement under the installment sale rules, for sales to beginning farmers only, the farmer would then be able to sell the farm with a small downpayment, and allow a new farmer, who usually lacks cash, to enter the business. This would allow the farmer to recognize the income and pay the tax ratably over the life of the mortgage as the principal payments are received. This would convert the sale of the farm into an income stream equivalent to a retirement annuity.

*Because if it's a
cost-prohibitive answer,
it's no answer at all...*

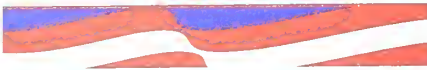
— Richard Edgar, Alabama

Farm entry strategies

In addition to accessing capital, another strategy for entry includes farming methods that require low capital investment to get started. There are fledgling efforts to design, test, and demonstrate these techniques and strategies, mostly among nonprofit organizations and farmers themselves, but intentional public support to research and develop less capital-intensive strategies is needed to provide economically conservative entry strategies for beginning farmers. Strategies are also needed to identify and develop high-value crop and live-stock production systems and marketing infrastructure that will reward a beginning farmer for his or her labor and management skills.

Recommendation 5.8

USDA should launch an interagency Beginning Farmer Initiative dedicated to researching, developing, disseminating, and supporting farm management models that emphasize low capital investment, optimal use of skilled labor and management potential of beginning farmers, and high-value crop and livestock production and marketing methods. An interagency coordinating body should include representatives from ARS, CSREES, Cooperative Extension, ERS, NASS, AMS, NRCS, FS, FSA, RBS, and FAS. The USDA Beginning Farmer Advisory Board, authorized in the 1992 Farm Credit Improvement Act, should be appointed expeditiously in order to provide guidance and oversight in the development and delivery of this initiative. The board should include beginning farmers and farmworkers. This initiative should include:



- a) research and educational programs on low-capital options for getting started, innovative means of acquiring capital, business planning, farm management, and marketing skills;
- b) outreach with educational forums for rural communities, about how they can support establishment of new small farms through strategies such as share leases, selling land on contract where the interest is tax exempt, trading of labor for use of equipment, and community-based financing; and
- c) collaborative partnerships with community-based organizations, such as the Rural Development Center, and organizational members of the National Farm Transition Network, to train and assist beginning farmers.

Recommendation 5.9

The Secretary's one-third of the Fund for Rural America should include a focus to support beginning small farmers through research and education to strengthen small livestock farms; develop small farm marketing cooperatives and other marketing alternatives; and support State and regional networks and nonprofit farmlink programs.

Recommendation 5.10

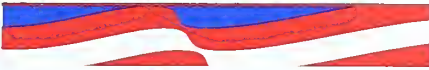
The Economic Research Service, in cooperation with legal and financial experts, should conduct research and analysis to design alternative financial and legal methods for the transfer of farms from retiring to beginning farmers. In addition, this focus should utilize unbiased organizations to proactively encourage farm transfer to beginning and small farmers by assisting existing farmers in maintaining the farm asset value and productive potential throughout the life of the farm.

Cooperatives

Farmer-owned cooperatives hold promise as a means for farmers – both established and beginning – to assert greater control over the prices for their products and to retain a greater share of value added to raw commodities. To ensure the long-term viability of farm cooperatives and to enable the success of beginning farmers, efforts should be taken to include beginning farmers directly in co-op development. For example, one of the limitations of a closed cooperative is that when a farmer quits or dies, usually existing members buy the farmer's shares, and ownership gradually concentrates among a smaller number of existing larger farms instead of replenishing the membership with new farmers.

Recommendation 5.11

USDA's Rural Business-Cooperative Service should research and develop means for cooperatives to enable new small farmers to join cooperatives, to ensure that control remains dispersed. For example, cooperatives could have a plan for allocating a portion of freed-up shares to beginning farmers. Beginning farmers would be given an opportunity to purchase the stock before existing members. In addition, the cooperative could also provide beginning



Small farms have a role in urban and suburban areas as well as the traditional view of rural areas. Small farms have a role in preserving some of the farmland that's rapidly disappearing.

— John Fawcett-Long,
Washington.

farmers a means to finance or assist in the financing of the stock purchase. USDA should emphasize means to include beginning farmer participation in its assistance to new and existing cooperatives.

USDA's Rural Business-Cooperative Services should also research and develop cooperative models that address the barriers beginning farmers face, particularly models that would ease the high cost of initial capital investment. For example, a farmer from North Dakota proposed the idea of an Op-Co, an operational cooperative. The Op-Co would involve the allocation of farm management operations among several farmers. One farmer might specialize in marketing, another in purchasing, one in bookkeeping, and another in management. This model could also include sharing or joint ownership of equipment and facilities. A feasibility study of this model should be completed and publicized.

Farmland preservation

Land continues to be developed for non-agricultural uses in areas of high agricultural production. According to an American Farmland Trust study, the United States is converting a total of about 1 million acres of farmland per year to other uses.⁷³ Testimony from the Puget Sound Land Trust in Portland indicated that where farmland is being threatened by development pressure, it "has a very profound effect on small farmers, both those who are in farming now and want to stay in farming, but are facing development pressure from suburbs and subdivisions growing up around them, and people who want to get into farming and are trying to compete with land speculators to buy farmland."⁷⁴ Efforts to preserve farmland are critical to enabling the next generation of farmers to enter farming. Assessments of farmland eligible for preservation assistance should include the potential of transition of the farm to a beginning farmer.

Recommendation 5.12

USDA should identify priority factors for farmland preservation, including, but not limited to, soil types and the potential transition of a farm to a beginning farmer. These factors should be shared with counties for use in decisions about land zoning.

Recommendation 5.13

The Natural Resources Conservation Service should consider expanding the Farmland Preservation Program to include matching grants to nonprofit land trusts. Land trust organizations have experience and expertise and contacts with local landowners. Land trusts work with low overhead and effectively extend their budgets to get the most results for the smallest amount of money, making limited Federal dollars go further.

⁷³ American Farmland Trust, *Saving American Farmland: What Works*, July 1997, p. 3.

⁷⁴ Testimony of Melinda McBride, Puget Sound Farm Trust, Seattle, WA, at public meeting, Portland, OR, September 5, 1997.

Policy Goal 6

Emphasize Sustainable Agriculture as a Profitable, Ecological and Socially Sound Strategy for Small Farms

Small family farms have kept our water pure, our environment clean, for over a hundred years. Factory livestock farming and corporate farming could end all of that.

- Bob Weber, South Dakota

Sustainable agriculture integrates three main goals – environmental health, economic profitability, and social and economic equity.⁷⁵ Farming systems that simultaneously pursue these three goals hold great potential for maintaining the viability of small farms, and they contribute to the well-being of rural communities and stewardship of our natural resources.

At the Washington, DC, public meeting, an Illinois farmer who raises over six different grain crops pointed out that “a great deal of effort, in both the private and public sectors, has gone into developing technologies, products and marketing structures that require farmers to spend more money on capital-intensive systems to produce raw commodities on a large scale, often at a great harm to the natural environment.” This farmer went on to recommend that USDA focus its resources instead on the development of farm management systems and technologies “to enable farmers to develop farming systems which use their management and labor to produce higher value products in ways consistent with long-term environmental enhancement and higher returns per acre.”⁷⁶

The underlying trend toward small farm decline reflects fundamental technological and market changes. Simply put, conventional agriculture adds less and less value to food and fiber on the farm and more and more in the input and post-harvest sectors. We spend more on capital and inputs to enable fewer people to produce the Nation’s food and look primarily to off-farm processing to produce higher value products. Sustainable agriculture strives to change this trend by developing knowledge and strategies by which farmers can capture a larger share of the agricultural dollar by using their management and skills to cut capital and input costs — so a large share of the prices they receive for their products remain in their own pockets — and by producing products of higher value right on the farm.

The stewardship goal of sustainable agriculture recognizes farming’s impact on, and contribution to, environmental quality. Sustainable agriculture emphasizes farming practices, technologies, and management systems that protect water quality, create habitat for wildlife, improve soil quality, and reduce reliance on non-renewable energy sources. The specific farming practices chosen by individual farmers are highly dependent on the farm topography, climate, pest populations, soil characteristics, on-farm availability of resources and the farmer’s goals for his or her family. While the practices will vary from farm to farm, the principles of sustainable farming systems are:

⁷⁵ “What is Sustainable Agriculture?” University of California Sustainable Agriculture Research and Education Program. December, 1991, p. 1.

⁷⁶ Testimony presented by Kevin Brussell, at Washington, DC, public meeting, September 10, 1997.



- Selection of species and varieties that are well suited to the site and conditions on the farm;
- Diversification of crops and livestock and farming practices to enhance the biological and economic stability of the farm;
- Management of the soil to enhance and protect soil quality;
- Efficient and humane use of inputs; and
- Consideration of farmers' goals and lifestyle choices.⁷⁷

Diversification enables small farm operators to spread economic risk. At the same time, diversification can provide biological assets to maximize on-farm resources, thus lowering the cost of production. Crop rotation and use of cover crops can provide additional sources of crop diversity, while at the same time suppressing weeds, soil pathogens, and insects. In farming systems that mix crop and livestock production, this diversity allows for rotation of forage and grain crops to enhance soil quality and control erosion, utilize livestock manure as a crop nutrient, and make more efficient use of farm labor. Sustainable farming systems provide small farmers a means to develop efficient, biologically based systems that rely less on purchased inputs and yield greater returns to a farmer's ingenuity and management skills.

In addition to cutting production costs as a means to attain the profitability goal of sustainable agriculture, marketing strategies are also needed that allow farmers to gain a greater return on the value of their products. This includes direct marketing, value-added processing, and production of high-value crops that command market premiums, like those enjoyed by organic foods.

SARE research results

Sustainable agriculture research and education information is not sufficiently available. The research results and new information generated through the USDA-CSREES Sustainable Agriculture Research and Education (SARE) competitive grant program provides valuable management strategies and farming practices for small farms. However, the widespread usefulness and application of these results are limited because sustainable agriculture represents only a fraction of USDA's research and extension funding. For example, a cotton farmer from Alabama told the Commission about the great interest in conducting on-farm research.⁷⁸ Out of 101 applications for producer grants in the Southern region, grant awards were made to only 19 applicants due to limited funds. Sustainable agriculture research and education should be given a higher priority for funding (see also Policy Goal 7, *Recommendation 7.1*). At the same time, USDA can do more to supply farmers with the information and research results from past and current SARE research.

⁷⁷ "What is Sustainable Agriculture?" University of California Sustainable Agriculture Research and Education Program. December, 1991, p. 1.

⁷⁸ Testimony of Richard Edgar, Alabama Farmers Federation, Deatsville, AL, at public meeting, Memphis, TN. July 28, 1997.

Recommendation 6.1

The USDA Office of Communications, working in cooperation with the new Office of Outreach, CSREES, ERS, NRCS, FSA, Forest Service, Cooperative Extension, RBS, and AMS, should develop and conduct a communications campaign to inform farmers of the new farming systems, strategies, practices, and technologies emerging from the 10 years of SARE research. The communications campaign should emphasize those strategies that reduce production costs, make more efficient use of biological assets, diversify economic risk, and earn a higher value for farm products. The campaign could include: placement of articles in farm magazines, presentations to the National Farm Broadcasters, farmer profiles in USDA publications and agency newsletters, and radio stories or Public Service Announcements about SARE research results. USDA field agency staff of NRCS and FSA, as well as Cooperative Extension, should also be targeted to receive SARE research results so that they can provide small farmers with the latest production research to improve farm profitability.

Recommendation 6.2

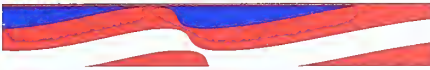
Cooperative Extension, NRCS, and FSA field staff should identify places where small farms have particularly high reliance on pesticide and nutrient use. Targeted outreach would provide small farmers in those regions with information and technical assistance on sustainable agriculture practices.

Recommendation 6.3

USDA's Office of Communications, in cooperation with the new Office of Outreach, AMS, ARS, CSREES, ERS, NRCS, and FSA, should develop a communications effort on organic farming to coincide with the publication of the final rule for the National Organic Standards. The communications campaign should target consumers to explain what organic food is and how it is produced. It should also target farmers – those who are currently growing organic crops and livestock and those who are potentially interested. In addition to explaining the new standards, the campaign should include information on how to make the transition to organic production and where to get information and assistance.

Recommendation 6.4

The USDA Office of Outreach, with leadership from the USDA Director of Sustainable Development, should work closely with the President's Commission on Sustainable Development (PCSD), linking citizens interested in sustainable development, (often limited in scope to urban and metropolitan issues), with sustainable agriculture and farmers. Through the PCSD's interaction with the Joint Center for Sustainable Communities, the USDA Director of Sustainable Development should develop linkages with those county and city governments interested in sustainable development and agriculture, supporting their efforts to link urban leaders, and thereby urban consumers, with farmers who are producing products with attention to stewardship of our natural resources. The Office of Outreach, RBS, CSREES, and AMS should be involved with the planning of PCSD's upcoming National Conference on Sustainable Development to ensure that involved citizens, urban leaders, rural



and community development officials, and non-governmental organizations understand and develop linkages between sustainable communities and sustainable agriculture.

Recommendation 6.5

The Cooperative State Research, Education, and Extension Service should encourage land-grant university colleges of agriculture to offer courses in sustainable agriculture and organic farming as electives for degrees in agriculture.

Public lands grazing

Traditionally, communal grazing rights were granted under Colonial Spanish and Mexican land grants and have been utilized for over three centuries. Due to the climatic conditions of the arid Southwest, livestock grazing was practical and deemed essential for the survival of the people. The United States Government, under the Treaty of Guadalupe Hidalgo, accepted and guaranteed these rights to the descendants of the grantees. Many of these lands are now held in trust by the USDA Forest Service and the Department of the Interior's Bureau of Land Management, which provide permittees with livestock grazing rights. American Indians and other small ranchers in the West also depend on public lands for grazing. Small and traditionally undeserved ranchers still depend — in most cases completely — on these traditional lands for livestock grazing to remain economically viable.

Livestock grazing plays an important role in maintaining a balanced ecosystem. Many lands are not suitable for crop production and must be managed and maintained as traditional savanna grasslands. Livestock grazing, along with other management tools (e.g., controlled burns), maintains the vitality of savanna grasslands by suppressing the encroachment of woody shrubs and trees, enhancing native grass species, improving wildlife habitat, and contributing to biological diversity.

Livestock grazing permits have come under opposition because of increased public land use competition and some groups desire to eliminate livestock grazing from public lands. This controversy has led to a tangle of lawsuits against public agencies, questioning their upholding the Endangered Species Act. A recent court injunction could mean the removal of thousands of cattle from national grazing allotments in the Southwest. For thousands of small ranchers, traditional access to public lands for grazing is critical to their economic livelihood.

Over the past 50 years, 35 – 60 percent of traditional savanna grasslands in many of the Southwestern public lands have been lost due to woody plant encroachment and dense stands of coniferous trees. This dense overgrowth has shaded out plant and wildlife diversity on these public lands. In addition, wildlife ungulate species (elk) have been allowed to increase without regard to range carrying capacity. Public land managers have adjusted range carrying capacity by reducing livestock stocking rates (permits) for the small ranch

permittee, thus causing additional economic hardship to the small ranchers. A sustainable and viable ecosystem can only come about with balances, and not at the expense of the small and traditionally underserved farmers and ranchers.

Recommendation 6.6

The Secretary of Agriculture should support legislative initiatives and administrative policy that recognizes and preserves the grazing and water use rights of the small and traditionally underserved public land permittee as was granted through the Treaty of Guadalupe Hidalgo. USDA should support legislation that is now being introduced to establish a commission to investigate individual rights of land grants and the legal rights given through U.S. treaty to the small and traditionally underserved farmers and ranchers.

Recommendation 6.7

The Economic Research Service should conduct economic impact studies determining the importance of livestock grazing on public lands and the importance to rural economies.

Recommendation 6.8

Reductions in grazing permits should be suspended on U.S. Forest Service allotments while plans are designed to enact sustainable system practices, including conservation improvements (controlled burns, water distribution improvement, reseeding, crossfencing, proper wildlife distribution, etc). Special attention and assistance should be given to public land permittees who wish to develop "grassbank" allotments on unused, underused, and newly acquired public lands. These "grassbanks" can be utilized by permittees while their allotments are undergoing conservation improvement.

Recommendation 6.9

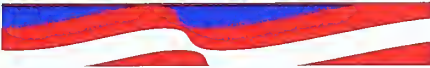
Public land agencies should develop Coordinated Resource Management Teams for those interested in the use of public lands, to develop management plan objectives and seek solutions to the problems facing the multiple use of public lands. These consortiums should consist of the USDA Forest Service, the Department of the Interior's Bureau of Land Management and U.S. Fish and Wildlife Service, farmers, ranchers, environmental groups, recreational enthusiasts, State wildlife departments, and private foundations.

Recommendation 6.10

The USDA Forest Service should use 100 percent of grazing fees to fund conservation programs within the district of origin (where the fees were collected). The Forest Service and other appropriate agencies should continue to provide reliable and credible science in managing public lands and in preparation for future litigation concerning the Endangered Species and the Clean Water Acts. A full-time, sustainable technical force should be in place to provide ongoing research in the monitoring and management of public lands.

Farm revenue insurance

Federal farm revenue insurance programs discriminate against farmers using rotational cropping practices by limiting coverage to a few major crops. Such farmers use diversification, including crop and livestock integration, as a core part of their production system. Thus, much of their production is not eligible



for revenue insurance as currently structured and the program is far less useful to them than to farmers who produce only major crops eligible for coverage.

Recommendation 6.11

USDA's Risk Management Agency should develop an affordable Whole Farm Revenue Insurance pilot project for diversified small farms using sustainable farming practices. However, participants in the pilot project would be eligible for no more than \$250,000 worth of whole farm revenue insurance. The proposed insurance would provide protection against losses relative to whole farm income based on reasonable price and yield projections.

EQIP

The 1996 FAIR Act consolidated the conservation cost-share programs into the Environmental Quality Improvement Program (EQIP). Half of EQIP is to be used for livestock manure management. Large, confined livestock operations are prohibited from accessing EQIP funds for the construction of animal waste storage or treatment facilities. The regulations define a large, confined livestock operation as one with more than 1,000 animal units; however, each State NRCS State Conservationist, after consultation with the State Technical Committee, has the flexibility to modify this national standard to meet each States' conservation needs. The waiver must be approved by the chief of the NRCS.

Recommendation 6.12

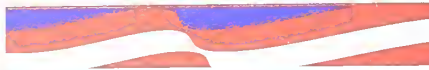
The Commission urges the Chief of the NRCS to exercise restraint in approving exceptions to the 1,000-animal-units eligibility limit on EQIP funding for manure storage structures, taking into consideration the impact of subsidizing large farm expansion on income and opportunities for small farms.

USDA as an advocate

Certain laws not administered by USDA can have a direct influence on the viability of small farm operators. USDA should represent the interests of small farms before other Federal agencies and Congress to ensure that the needs of small farms are understood.

Recommendation 6.13

As Congress considers reauthorization of the Endangered Species Act and other natural resource laws administered by other Federal agencies, the Secretary of Agriculture should provide information to Congress on any impact that they may have on the needs and rights of small farm and ranch operators. The Secretary should advocate means to provide incentives to small farm and ranch operators for recovery of endangered species and preservation of natural resources in general.



Agroforestry

Agroforestry offers small farm operators a means for economic diversification, windbreaks, biological diversity, and habitat for wildlife. USDA Extension, conservation, and forestry services should make greater efforts to promote and support agroforestry as part of an economic and ecological strategy for a healthy agriculture.

Recommendation 6.14

The Cooperative State Research, Education, and Extension Service and the Forest Service should sponsor a series of regional pilot projects that will demonstrate forestry opportunities for small farms and ranches. These pilot projects should demonstrate the concept of sustainable forestry on limited-acreage farms and ranches.

Recommendation 6.15

The Natural Resources Conservation Service should implement a policy that will result in the inclusion of potential commercial values of timber and woodlots in every farm plan. Such documentation is needed to prove loss of property to the Internal Revenue Service in the event of natural disasters.

Recommendation 6.16

USDA's Risk Management Agency should expeditiously investigate and develop new insurance policies for emerging products such as containerized nursery plants, Christmas trees, and other nursery products.





Policy Goal 7

Dedicate Budget Resources to Strengthen the Competitive Position of Small Farms in American Agriculture

Attention needs to be given to the fact that the small farmer, the crops that he grows are just as important to him as the cotton is to the large farmer.

— Melvin Crum, South Carolina.

USDA has several programs that work very effectively to the benefit of small farms. However, the potential for these programs to serve a greater number of small farms is stymied by funding constraints. Budget cuts over the last several years, particularly to FSA's direct lending programs, have restricted credit availability to minority and limited-resource farms. USDA, through the President's annual budget request, and Congress, through its annual appropriations process, can demonstrate their commitment to small farm vitality by reallocating and/or increasing funds to existing programs that best meet the needs of small farmers.

Recommendation 7.1

Increase appropriations for the Sustainable Agriculture Research and Education (SARE) program by \$10 million each year over 3 years to reach its authorized funding level of \$40 million. The SARE Chapter 3, Professional Development Training Program, should be funded at \$10 million. The funding increase should be specifically tailored to small farm research and education needs, on-farm research and farmer-to-farmer networking as means of technology transfer. Particular attention should be given to traditionally underserved farmers. Currently funded at \$8 million, SARE can only fund 17 percent of the projects proposed. The SARE Producer Grants, awarded to farmers to design and conduct their own on-farm research and extend their results to other farmers, are especially popular and have proven effective at creating low-cost production and marketing innovations.

Recommendation 7.2

Increase the Appropriate Technology Transfer for Rural Areas (ATTRA) program appropriations to \$3 million. With its toll-free number, ATTRA staff respond to production and marketing questions from across the Nation, mostly from small farms. ATTRA serves as a "crop consultant" that larger farmers can afford to hire. While ATTRA has operated at \$1.3 million over the last 6 years, requests for assistance have more than tripled.

Recommendation 7.3

Increase the Outreach and Technical Assistance Program for Socially Disadvantaged/Minority Farmers (Sec. 2501 program) to the current authorized level of \$10 million annually through the year 2002 to conduct effective outreach and farm management assistance. The Secretary should request an increase in the authorization for appropriations to \$15 million in 2002 and \$20 million by 2004.

Recommendation 7.4

The President's Budget should request that Congress appropriate the maximum authorized levels of \$85 million per year in Farm Ownership Direct Loans and \$500 million per year in Farm Operating Direct Loans.

**Recommendation 7.5**

Increase CSREES Smith-Lever Formula Funding (3c) for the Small and Part-Time Farmer program from \$2.25 million to \$10 million by 2000. The Department should hold each State accountable for its portion and document how funds were spent for purposes of small farms. Funding should increase to \$15 million by 2004 and keep pace with inflation.

**Recommendation 7.6**

The Rural Technology and Cooperative Development Center Grant Program should be increased by \$10 million annually up to \$20 million. The authorization is set at \$50 million, but funding has never exceeded \$1.7 million. The program is administered as a competitive grant for non-profit educational institutions and community-based organizations for cooperative development, training, and operations on behalf of low- and moderate-income people in rural communities. This program is one of the few that supports rural cooperative development at the grassroots level.

**Recommendation 7.7**

The Federal-State Marketing Improvement Program (FSMIP) funding should be increased from its current level of \$1.2 million to \$3 million annually. FSMIP has been an effective source of funding for feasibility studies, market research, product development, and marketing innovations in partnership with State-level organizations, such as State departments of agriculture and community-based organizations. Funding increases should be targeted to niche market development appropriate for small farms.

**Recommendation 7.8**

Funding for the Grain Inspection, Packers and Stockyards Administration is critical to investigation of concentration in livestock markets. The President's Budget should repeat its request for \$3 million for the agency reorganization and \$1.65 million and 20 additional staff for increased economic, statistical, and legal expertise to pursue investigations of packer competition and structure of the livestock industry. In addition, \$750,000 and 10 additional staff should be requested and appropriated for investigation into unfair market practices in the poultry industry. The agency must have additional economic and legal expertise if it is more aggressively to pursue anti-competitive practices related to industry concentration.

**Recommendation 7.9**

The Fund for Rural America should be made a permanent program with funding at \$100 million annually. The Secretary's discretionary funding should be directed to the following priorities:

- The Cooperative Value-Added Program should be continued, with priority given to project proposals involving the development of small farm cooperatives.
- Outreach and Technical Assistance Program for Socially Disadvantaged/Minority Farmers (Sec. 2501 program), in FY 1999 to bring the funding level up to \$10 million if it does not receive full funding through appropriations.
- Research and extension to support beginning farmers, including the development of low-cost livestock systems, small farm marketing cooperatives, and support for State and regional networks or centers to support beginning farmers.



In addition, the Rural Development portion of the Fund should include at least \$10 million for the Rural Business Enterprise Grant program for the purposes of funding feasibility studies and development of innovative marketing strategies for small farms. In addition, \$3 million for RBEG could be programmed to fund technical assistance programs for nonprofit and State organizations to link retiring farmers with beginning farmers for cost-effective transitions of farms from older to younger generations.

Recommendation 7.10

USDA has released the proposed National Organic Standards, with full implementation expected to occur sometime in 1998. Organic farming has given innovative small farmers an opportunity to enjoy price premiums in one of the fastest growing segments of the food industry. Effective certification and enforcement of the national standards will be critical to maintaining the integrity of organic products, consumer confidence in the organic label, and fair market access to what will continue to be an expanding market with the entrance of large food processing firms. Funding should be provided at \$2 million per year for the National Organic Program to support the implementation and on going administration of the national standards.

Recommendation 7.11

The WIC/Farmers Market Nutrition Program funding should be increased to \$25 million annually in future budget requests and appropriations. This program allows WIC recipients to redeem their WIC coupons for fresh produce at farmers markets. Now operating in 30 States, Washington, DC, and two Tribal nations, this program provided \$9 million in revenue to 8,250 farmers in 1996. With the increased funding, the program will be expanded to more States and farmers will gain more WIC customers at farmers markets.

Recommendation 7.12

Funding for the Farmworker Housing Program should be increased to \$50 million. Rural Housing Service farmworker housing funds should be directed to community-based farmworker organizations that have a community development corporation component. Program rules and regulations should be altered to allow more innovation and flexibility, and to leverage other potential sources of support in constructing farmworker housing units.

Recommendation 7.13

The Commission recommends that the Forestry Incentive Program be revitalized and funded at the previous higher levels. Funding should be increased to \$6.62 million.

Recommendation 7.14

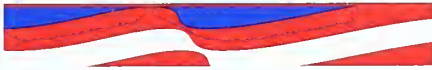
Funding of the Forest Stewardship Program should be increased to \$27.5 million. The increased funding should be targeted to assisting small farm operators and small woodlot owners.

Recommendation 7.15

Funding for the Stewardship Incentive Program should be increased to \$10 million annually. This program provides cost-sharing for nine different forestry practices, including riparian and wetland protection, fisheries habitat enhancement, and forest recreation enhancement.

Recommendation 7.16

The Renewable Resources Extension Act should be funded at a level of \$6 million annually. Education is an important aspect of all forestry and farm management, and the continued erosion of the Extension budget has had serious negative outcomes at the State and local levels.



Policy Goal 8

Provide Just and Humane Working Conditions for All People Engaged in Production Agriculture

Because the large corporations pay lower wages, it's hard for the small farmers who pay better and invest more in their workers—It's hard for them to compete with the corporations who can produce for lower costs.

— Tirso Moreno, Florida

The Commission heard testimony from representatives of farmworker organizations who articulated interests that were common among farmworkers and small farmers. In particular, large farm operators and agribusinesses have unfair advantages because “employer costs have been reduced by the partial or total exclusion of agricultural workers from coverage under key labor laws.” In addition, “the authorized importation of foreign workers for agricultural work (H2A program),⁷⁹ by adding workers to the pool of available labor, has helped keep wages for agricultural workers, and thus labor costs for agricultural producers, below what they would have been without such interventions.”⁸⁰

This creates an atmosphere where farmworkers can be subject to unsafe working conditions, substandard living conditions, and lack of worker protection and safety nets available to most U.S. wage laborers. Because large farm operators who hire farmworkers are exempt from some national labor laws, their “economies of scale” are deceptively greater than they appear and “competitiveness” is supported by government-sanctioned access to low-wage labor. The benefits received by large farm operators come at the expense of the farmworker and small farmer who cannot compete with large farms because they have access to cheap labor.

Small farm operators cannot pay themselves a middle class income for their own labor and compete with farms that minimize labor costs by paying farmworkers less than a living wage. Ultimately, small farmers will earn fair incomes only if farmworkers on large farms are paid fair incomes.

It is critical to recognize the basic human rights of all agricultural workers (including small farm operators personally engaged in agricultural production, as well as farmworkers) to be treated with respect and be able to earn a decent income to support family members and provide for decent housing, living conditions, education, health care, and continuing income for the elderly and disabled.

Farmworker protection

The need for concern surrounding the treatment of farmworkers is well documented and analyzed. Many of the recommendations outlined below resemble recommendations made by the Commission on Agricultural Workers in its November 1992 report to Congress.⁸¹ The Civil Rights Action Team articulated six recommendations for USDA to act on to improve the working

⁷⁹ H2A refers to the existing temporary foreign worker program that allows the temporary admission of foreign workers to fill farm labor shortages in the U.S.

⁸⁰ Report of the Commission on Agricultural Workers. November, 1992. U.S. GPO: 1993 O-332-456:QL 3. The Commission report was authorized by Section 304 of the Immigration Reform and Control Act of 1986, p. 36.

⁸¹ Ibid. p.xix-xxxi.

conditions of farmworkers. Now, it is important for USDA, under the leadership of the Secretary of Agriculture, to work with other relevant Federal agencies to take action on these and previous recommendations.

There is a lack of a common policy on farmworker protection laws from those government agencies charged with protecting farmworkers. This void has hampered the ability of the regulatory agencies to develop adequate farmworker protection laws and to effectively implement and enforce the laws. Historically, these agencies have not involved farmworkers in the process of developing, implementing, and enforcing the laws. A concerted effort from all government agencies involved, dealing directly with the farmworker community, needs to occur in order to address the issues of respect and dignity for this community.

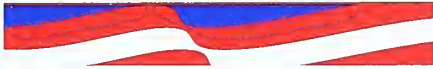
**Recommendation 8.1**

The Secretary of Agriculture should implement the Civil Rights Action Team Report (CRAT) Recommendation No. 60: "to establish an initiative to address the needs of farmworkers that could be addressed through USDA programs." While various ideas and plans have been discussed, action on this initiative has yet to occur. Action should be taken on this initiative as soon as possible. The initiative should include the following components:

- a) The Secretary of Agriculture should request authority from the President to establish an interdepartmental task force, with USDA as the lead agency, to address laws, regulations, and enforcement of regulations affecting farmworkers. The task force should consist of, but not be limited to: USDA, the Departments of Labor, Health and Human Services, Education, as well as the Environmental Protection Agency, Internal Revenue Service (IRS), and Immigration and Naturalization Service. It is recommended that the task force address, but not be limited to, the following issues:
 - elimination of employer exemptions for agribusinesses and large farm operators. Large farm operators need to be held accountable for paying a decent wage, overtime, compensation insurance,⁸² compliance with Occupational Safety and Health Administration (OSHA) regulations, and other labor laws.
 - repeal of the H2A foreign guest agricultural worker program.
 - development of specific OSHA standards to protect the health and safety of agricultural workers.
 - inclusion of agricultural workers in the unemployment insurance compensation laws.⁸³
 - inclusion of all agricultural employment in the computations of

⁸² Ibid. p. xxviii.

⁸³ Ibid. p. xxviii.



individual employee base period earnings. Allow farmworkers to document their past quarters of earnings for Social Security purposes without late penalties. Prohibit the IRS from pursuing claims for unpaid taxes against farmworkers when agricultural employers fail to report wages or pay taxes prior to the most recent 3-year period.

- provide assistance to small farm operators to comply with minimum labor standards. Continue exemptions for small farm operators with fewer than four employees. All Federal Insurance Compensation Act (FICA) earnings and taxes should be the direct responsibility of the farm operator.
- collaboration among USDA, EPA, and Labor to protect the health and safety of farmworkers, particularly as it relates to the issue of pesticides.
- inclusion of farmworkers under protections afforded workers by the National Labor Relations Board.

As the task force addresses the above issues, they should give attention to how small farms will be affected.

- b) A Farmworker Coordinator position should be created within the new USDA Office of Outreach. Candidates for the USDA Farm Worker Coordinator position should be solicited from community-based farmworker organizations. The Coordinator should immediately begin arranging regularly scheduled listening sessions between USDA, the interdepartmental task force, and farmworkers.
- c) Satellite or mobile offices should be established in communities where high populations of farmworkers reside in order to reach farmworkers with limited transportation access. The offices should be jointly staffed and funded by the Federal agencies involved in the interdepartmental task force. Staff should be bilingual and have farmworker experience. Culturally appropriate educational and technical assistance publications in the language of the farmworkers should be made available on issues such as pesticide safety and health care services.
- d) The Cooperative State Research, Education, and Extension Service and the Rural Business-Cooperative Service staff, along with the Farmworker Coordinator and farmworker organizations, should conduct a feasibility study to research and design "farmworker harvesting" cooperatives. Such a cooperative would be designed to match the job skills of agricultural workers with employers as an alternative to the system of farm labor contractors. The cooperative would serve the functions of recruitment, employment, and transportation of farmworkers. The cooperative could also provide job training programs for individuals interested in learning skilled agricultural techniques.

- e) USDA, either through its own competitive grants program or in collaboration with other Federal agencies, should conduct research to investigate the impact of pesticides on farmworkers and mitigation of those impacts. Farmworkers have historically been neglected in past studies, as evidenced by the recent collaboration between the Environmental Protection Agency, the National Cancer Institute (NCI), and the National Institute of Environmental Health Sciences' (NIEHS) \$15 million, 10-year epidemiological study on farm family health. This important study excluded Hispanic farmworkers, who make up 70 percent of seasonal and 91 percent of the migrant agricultural labor force. In addition, researchers should collaborate with and provide financial support for community-based research by people directly affected by pesticides, such as small farmers and farmworkers. Resources are needed to encourage collaboration in order for the land-grant universities and colleges to work more closely with community-based farmworker organizations on issues related to farmworkers and pesticides. The Fund for Rural America should strongly consider issues relating to farmworkers and proposals submitted by farmworker organizations that directly work with this underserved USDA constituency.



Recommendation 8.2

The Commission endorses CRAT recommendations 61, 62, 63, and 64 and suggests continued progress toward implementation of the recommendations:

CRAT Recommendation No. 61: *"Enforce the requirement that those who use 'restrictive use pesticides' keep records of the application of their products."* Top priority should be given to farms that employ farmworkers.

CRAT Recommendation No. 62: *"Immediately provide pesticide information to health care providers treating pesticide-related illnesses."* Congress should appropriate the \$3.5 million requested by CSREES for updating and maintaining the Extension Toxicology Network database. The national computerized pesticide recordkeeping network on restricted use pesticides should be accessible to all health care professionals treating pesticide-related illnesses. Training should be provided for community health care providers in the diagnosis, treatment, and proper reporting of pesticide and other work-related illnesses in communities with high farm worker populations. This training should be conducted in collaboration with farmworker organizations that are familiar with pesticide practices and the accompanying symptoms exhibited from pesticide exposure. This combination of information and training will ensure that quality medical care is being provided to farmworkers as well as small farm operators.

CRAT Recommendation No. 63: *"Require USDA to use this information to prepare comprehensive annual pesticide use reports, as mandated in the 1990 and 1996 farm legislation."* Currently, it is extremely difficult to get an accurate account of pesticides used in States other than California. This mandate was included in both the 1990 and 1996 farm bills and needs to be implemented now. Congress should appropriate the \$2 million increase



The land is a symbol of family welfare and safety, of family status in the community and the world, and is a sacred trust for their ancestors, other family members, future descendants and God, and a sense of family pride. These values in human terms are what contribute to the social fabric of our communities.

— Mary Ellen McKay,
New Mexico

Recommendation 8.3

in the NASS budget with the purpose of preparing the annual pesticide use reports and also to enhance future pesticide use surveys. The increased appropriation should be used to expand the survey to include crops that are more labor intensive.

CRAT Recommendation No. 64: “Enforce the Environmental Justice Executive Order at USDA.” The Environmental Justice Executive Order requires that “each agency shall make achieving environmental justice part of its mission by identifying and addressing, as appropriate, disproportionately high and adverse human health or environmental effects of its programs, policies, and activities on minority populations and low-income populations in the United States and its territories and possessions, the District of Columbia, the Commonwealth of Puerto Rico, and the Commonwealth of the Mariana Islands.”⁸⁴

Farm-related stress

Underlying much of the testimony received by the Commission were signs of emotional and physical stress due to the uncertainties and high risk associated with farming. Family farms, like other family businesses, put family relationships among spouses, children, parents, and grandparents in the context of the day-to-day operation of the farm. Crop failures and low prices can have significant impacts on the emotional well-being of farm families as well as on farm families within the context of rural communities.

USDA and land-grant university researchers should look to rural sociologists and specialists in the behavioral sciences to understand the social impacts resulting from a rapidly evolving farm policy and changing rural society. Research should examine the social, psychological, and emotional issues relating to farm operations. This research should be used to design intervention programs by USDA, Extension, and other groups to provide personal counseling, family counseling, stress management, lifestyle assessment and change, and farm management. In addition, researchers should develop a set of indicators to assess community-level social stress in order to monitor and improve the conditions of rural communities. This research should be conducted as a collaboration between land-grant university researchers and community-based organizations.

In another area of concern, the Commission encourages the Secretary to give consideration to recommendations regarding the need to support farmers with disabilities. They were not received in time for full review by the Commission. The National Easter Seal Society has suggested that USDA expand the AgrAbility Program and establish a Center on Disability and Agriculture.

⁸⁴ Executive Order of President Clinton, Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations. Issued February 11, 1994.

**U.S. Department of Agriculture
Washington, DC
DR 1043-43 July 9, 1997
Natural Resources Conservation Service**

1 PURPOSE

- a This regulation establishes the National Commission on Small Farms (Commission). The purpose of the Commission is to gather and analyze information regarding small U.S. farms and ranches and recommend to the Secretary of Agriculture a national strategy to ensure their continued viability, including specific measures the public, nonprofit and private sectors can take to enhance the economic livelihood of small farms.
- b The Commission is in the public interest and within the duties and responsibilities of the Department of Agriculture (USDA). Establishment of the Commission also implements the recommendation of the USDA Civil Rights Action Report to develop a national policy on small farms.

2 SPECIAL INSTRUCTION

- a This regulation will expire two years from the date of filing.
- b Unless renewed, the Commission will terminate two years from the date of filing.

3 OFFICERS AND MEMBERSHIP

- a The Commission may have as many as 30 members, one of who will serve as chair and two who will serve as vice-chairs. Members will represent small farms and ranches, finance, commerce, rural communities, nonprofit organizations, academia, state and local governments, Native Americans, farmworkers, and the diverse groups USDA programs serve, and other interests as the Secretary determines. USDA will follow equal opportunity practices in making appointments to the Commission. Membership shall include, to the extent practicable, individuals with demonstrated ability to represent minorities, women, and persons with disabilities.
- b The Secretary of Agriculture shall make all appointments to the Commission and the members will serve at the Secretary's discretion.
- c The Commission may establish subcommittees as it determines necessary subject to the provisions of the Federal Advisory Committee Act and the approval of the Chair or the Chair's designee.

4 EVALUATION AND ANALYSIS

The Commission will gather and evaluate information, studies, and data pertinent to small farms and ranches, including limited-resource farmers. This evaluation and analysis should include:

- (1) USDA and other studies, information and data, such as transcripts of



public hearings for the Civil Rights Action Team, the Rural Summit, the Civil Rights Action Report, and the reports of the USDA Sustainable Agriculture Working Group and the Advisory Committee on Agricultural Concentration:

- (2) Current USDA programs that serve small farms and ranches and the effectiveness of those programs, including but not limited to farm loans, rural development loans and grants, research, extension, and education programs, outreach and technical assistance, natural resource conservation, private forestry, risk management, marketing, fair trade practices, trade and export promotion, farm labor, and mediation;
- (3) Other Federal, state, and private sector programs and policies that serve small farms and ranches and the effectiveness of those programs;
- (4) The needs of individuals and families starting and operating small farms and ranches, including but not limited to credit, agricultural production and diversification, specialty crops, private forestry, marketing, risk management, research, education, extension, mediation and alternative dispute resolution, natural resource conservation, outreach, and technical assistance;
- (5) The effectiveness of different types of farm operations and production systems in ensuring the viability of small farms and ranches, including, but not limited to, sustainable agriculture, diversified and integrated operations, specialty and niche crops, direct marketing, alternative uses of agricultural products, community supported agriculture, and cooperative or coordinated production, processing, and marketing systems, including locally-owned, value-added cooperatives, as well as barriers to and ways in which to promote the adoption of the most effective and efficient operations and production practices by small farm and ranch operators;
- (6) Availability and accessibility of credit and other financing options;
- (7) Ways to assist beginning farmers and ranchers as well as to assist farmworkers including facilitating the transition from farmworker to farm or rancher owner or operator;
- (8) Relationships among USDA programs, estate planning, and other factors influencing land ownership and the conversion of productive farm land to non-farm uses;
- (9) The effects, if any, of USDA's organizational and management structure on the viability of small farms and ranches;
- (10) Agricultural market, structural, and organizational trends as they relate to small farms;
- (11) The role of USDA, if any, in facilitating the fair and effective operation of small farms and ranches in vertically integrated agricultural systems;
- (12) The interdependence of small farms and ranches and rural economies and communities; and
- (13) The social, cultural, and environmental contributions of small farms.

5 FINDINGS AND RECOMMENDATIONS

Based on the evaluation and analysis described in Section 4 and the public hearings described in Section 8, the Commission shall make findings and shall recommend a national strategy to ensure the continued viability of small farms and ranches in U.S. agriculture. The findings and strategy shall address the issues analyzed by the Committee under Section 4, including, but not limited to:

- (1) Ways to make existing USDA or other Federal, state, private or non-profit programs, policies and practices more effective at meeting the needs of and practices more effective at meeting the needs of and provide a stronger safety net for small farms and ranches;
- (2) New USDA or other Federal, state, private, or non-profit programs, policies, and practices, that would benefit small farms and ranches and provide a stronger safety net for small farms and ranches;
- (3) The types of production systems and practices noted in number (5) of Section 4 that are likely to be the most effective for small farms and ranches and ways in which to improve and facilitate the adoption by small farms and ranches of such systems and practices;
- (4) Ways to assist beginning farmers, farmworkers, including addressing minorities, women, and persons with disabilities, to become farm owners or operators; and
- (5) The role of USDA in assisting small farms and ranches in vertically integrated agricultural systems, such as producer education about contract production or regulatory action to ensure fair contracts and practices, as well as any additional steps USDA should take to address issues of agricultural concentration.

6 HEARINGS AND PUBLIC PARTICIPATION

The Commission will hold public forums and hearings as specified in Section 8 and may hold additional forums and hearings and solicit public comment as necessary and appropriate within budgetary constraints.

7 ESTIMATED ANNUAL OPERATING COSTS

- a Commission members shall serve without pay and without reimbursement of travel or per diem costs, except reimbursement of travel and per diem costs shall be made to a Commission member who requests and otherwise would be unable to serve without such reimbursement.
- b Annual operating costs are estimated to be \$155,000 including .33 staff year support for fiscal year 1997, and \$35,000 including .20 staff years for fiscal year 1998.



8 NUMBER AND FREQUENCY OF MEETINGS

- a The Commission will meet as necessary to perform its functions as determined by the chair. The Commission will hold at least three public hearings, which may be in conjunction with working sessions of the Commission.
- b The designated Federal official shall be responsible for the prior approval of the agenda for all full Commission meetings and notification of Commission meetings and agendas in the Federal Register.

9 REPORTS/SUPPORT

- a The Commission shall submit its findings and recommendations to the Secretary of Agriculture by September 30, 1997.
- b Funding and support for the Commission will be provided by the Natural Resources and Conservation Service.

AFPA	Agricultural Fair Practices Act
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
ATTRA	Appropriate Technology Transfer for Rural Areas
B&I	Business and Industry
CRAT	Civil Rights Action Team
CRIT	Civil Rights Implementation Team
CSREES	Cooperative State Research, Education, and Extension Service
EQIP	Environmental Quality Incentive Program
ERS	Economic Research Service
FAC	Food and Agriculture Council
FAIR	Federal Agriculture Improvement and Reform Act
FAS	Foreign Agricultural Service
FCS	Farm Credit System
FFAS	Farm and Foreign Agricultural Service
FICA	Federal Insurance Compensation Act
FmHA	Farmers Home Administration
FMNP	Farmers Market Nutrition Program
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSMIP	Federal-State Marketing Improvement Program
GATT	General Agreement on Tariffs and Trade
GIPSA	Grain Inspection, Packers and Stockyards Administration
IRP	Intermediary Relending Program
IRS	Internal Revenue Service
MRP	Marketing and Regulatory Programs
NAFTA	North American Free Trade Agreement
NASS	National Agricultural Statistics Service
NCI	National Cancer Institute
NIEHS	National Institute of Environmental Health Sciences
NRCS	Natural Resources Conservation Service
NRE	Natural Resources and Environment
OBPA	Office of Budget and Program Analysis
OGC	Office of the General Counsel
OSHA	Occupational Safety and Health Administration
PACA	Perishable Agricultural Commodities Act
PCSD	President's Commission on Sustainable Development
RBEG	Rural Business Enterprise Grant
RBS	Rural Business-Cooperative Service
RC&D	Resource Conservation and Development
RD	Rural Development
REE	Research, Education and Economics
RMA	Risk Management Agency
SARE	Sustainable Agriculture Research and Education
USDA	United States Department of Agriculture
WIC	Women, Infants and Children

The following index is arranged according to key topics in the Commission report and according to USDA agencies. The numbers correspond to the recommendation numbers in the report.

Advisory Boards and Commissions	Civil Rights Action Team (CRAT)	EQIP	Foreign Agricultural Service (FAS)
2.11	1.23	1.32b	3.27
2.12	1.24	6.12	5.8
3.15	4.3	Farmer Advocates	
	4.16	4.8	Forest Service
Agricultural credit	8.1		3.20
1.12	8.2	Farmers Markets	3.26
1.13		3.26c	4.22
1.14	Contract production	3.26d	5.8
1.15	3.6	3.26e	6.1
1.16	3.7	7.11	6.8
1.17	3.8		6.9
1.18		Farmland Preservation	6.10
1.19	Cooperative State Research, Education, and Extension Service (CSREES)	5.12	6.14
1.20		5.13	
1.21		Farm Service Agency	Forestry
1.22	1.3		1.32f
1.31	1.5	1.11	3.20
2.10	3.25	1.12	4.22
4.4	4.18	1.13	6.10
4.9	5.8	1.14	6.14
4.14	6.1	1.18	6.15
4.15	6.3	1.20	7.13
7.4	6.4	1.21	7.14
	6.5	1.22	7.15
Agricultural Marketing Service	6.14	1.26	7.16
3.26	7.5	1.31	
5.8	8.1	2.10	Fund For Rural America
6.1	8.2	2.12	1.16
6.3		2.14	5.9
6.4	Cooperatives	3.26	7.9
7.7	1.10	4.1	
7.10	3.16	4.5	Grain Inspection, Packers and Stockyards Administration
	3.22	4.9	3.3
	3.23	4.13	3.4
Agricultural Research Service (ARS)	3.24	4.14	3.7
1.3	5.11	5.1	7.8
1.4		5.2	
3.26	Dairy	5.3	
5.8	3.12	5.5	Land-Grant Institutions
6.3	3.13	5.6	1.25
	3.14	5.8	1.7
		6.1	2.6
ATTRA	Economic Research Service (ERS)	6.2	2.7
1.7		6.3	2.8
7.2	1.2		3.23
	1.4	Farm-related stress	3.25
Beginning farmers	3.1	8.3	6.5
5.1	3.12		8.3
5.2	3.27	Farmworkers	
5.3	5.7	7.12	Market enforcement
5.4	5.8	8.1	3.1
5.5	5.10	8.2	3.2
5.6	6.1		3.5
5.8	6.3	Food and Nutrition Service	3.9
5.10	6.7	3.26	3.10
		7.11	3.11



Meat inspection 3.28	Public Lands 6.6 6.7 6.8 6.9 6.13	Sustainable Agriculture 6.1 6.2 6.4 6.5 7.1
Minority farmers 1.23-1.24 1.25 1.26 1.27 1.28 2.13 2.14 7.3	Research and Extension 1.1 1.2 1.3 1.4 1.5 1.7 1.11 5.19 6.7 7.5	Tax Policy 5.7 Tobacco 1.29 1.30
National Agricultural Statistics Service (NASS) 3.29 5.8 8.2		USDA administrative management and organiza- tional structure 2.1 2.2 2.3 2.4 2.5 4.17 4.18 4.20 4.21
Natural Resources Conservation Service 1.32 2.12 2.14 3.26 3.27 4.1 4.5 4.7 5.8 5.13 6.1 6.2 6.3 6.11 6.15	Risk Management 1.32d 4.12 4.13 6.11 6.16 Rural Business – Cooperative Service 1.32 3.16 3.19 5.8 5.11 6.1 6.4 8.1	USDA Office of Outreach 2.9 4.2 4.5 4.16 4.18 6.1 6.3 6.4 8.1
Organic Farming 1.2 6.3 7.10	Rural Development 1.8 1.9 1.10 1.32c 1.32e 3.17 3.18 3.19 3.21 4.4 7.6	Value-added market develop- ment 1.18 1.19 3.17 3.18 3.19 3.21 3.25 3.27 4.10
Outreach and Education 2.9 3.21 4.1 4.2 4.3 4.5 4.6 4.7 4.9 4.10 4.11 4.14 4.16 4.19 7.3	Rural Housing Service (RHS) 7.12 Statistics 3.29	



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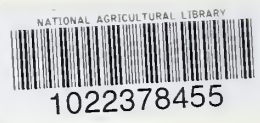
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